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Full contents
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Past issues/regional covers
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NEWS ANALYSIS
POLITICS THIS WEEK
BUSINESS THIS WEEK

OPINION
Leaders
Letters to the editor
Blogs
Kallery

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
International
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index
Chart Gallery

DIVERSIONS
RESEARCH TOOLS
CLASSIFIED ADS

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E-mail Newsletters
Mobile Edition
RSS Feeds
Screensaver

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Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

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Business this week

Feb 22nd 2001
From The Economist print edition

Steel band

Three leading European steel makers joined forces to create the world's largest steel producer. France's **Usinor** will acquire Luxembourg's **Arbed** and Spain's **Aceralia** for shares worth around *euro*3.4 billion ($3.1 billion). Europe's competition authorities are likely to cast a keen eye over the deal. The firm will temporarily be called NewCo, pending the next fad in corporate identity.

See article: A European steel merger

Volkswagen, Europe's biggest car maker, announced that profits for 2000 had doubled to DM4 billion ($1.9 billion). Sales in the United States were particularly buoyant as a result of a strong dollar. Europe's number-two car maker, **Peugeot Citroën**, announced that profits for the year had soared by 80% to *euro*1.3 billion ($1.2 billion) as it increased sales in a contracting European market.

South Korean prosecutors charged 34 former **Daewoo** managers and auditors over an accounting fraud allegedly masterminded by a former chairman, Kim Woo Choong. The scam covered up the car firm's losses to obtain bank loans worth 10 trillion won ($8.5 billion) as Daewoo teetered on the brink of bankruptcy in 1997 and 1998. Mr Kim has since disappeared.

Food chain

Coca-Cola and **Procter & Gamble**, an American consumer-goods giant, announced a drink-and-snack joint venture that will combine 40 of the companies' brands in a venture with revenues estimated at $4 billion a year. P&G will gain access to Coke's distribution network and the soft-drink giant will be able to take advantage of P&G's apparently unrivalled snack-research capabilities.

Coke and **AOL Time Warner** have done a promotional deal worth around $150m on the media group's forthcoming film, "Harry Potter and the Sorcerer's Stone". Unusually, Master Potter, denounced for promoting satanism by some American religious fundamentalists, will not be seen quaffing the beverage in the movie but images from the film will be used to market Coke.

The **Dallas Cowboys**, an American football team, beat Manchester United, a British football team, to top a league of sports-brand value, according to FutureBrand, a consultancy. Ferrari's Formula One motor-racing team was the highest-placed puck- or ball-free venture at 15th and Flamengo, a Brazilian football team, the top side outside North America and Europe. Sporting success plus merchandising were given as the key to brand value.

Sport's top table
World's top teams by brand value, $m

Dallas Cowboys	274.3
Manchester United	258.9
Washington Redskins	210.6
New York Yankees	180.2
New York Knicks	171.0
Real Madrid	155.1
Bayern Munich	150.3
San Francisco 49ers	147.4
Los Angeles Lakers	146.6
New York Rangers	145.7

Source: FutureBrand

Unilever, an Anglo-Dutch consumer-goods giant, sold its American bakery division to George Weston, a Canadian food group, for $1.8 billion. Unilever acquired that division through last year's $21 billion purchase of Bestfoods.

A report commissioned by **Nike** said that workers in its Indonesian factories have only limited access to medical care, face sexual harassment and are forced to work overtime (though the country's laws make it voluntary). The company said it would seek independent verification of the charges.

Allied Domecq, a British drink firm, looked close to losing recently acquired rights to distribute

Stolichnaya, Russia's leading vodka brand. Russia's government was preparing to nationalise "Stoli", the world's favourite vodka, as part of an effort to gain control of the country's drink business, an important source of revenue.

Record profits

Napster, a free service for downloading music from the Internet, attempted to win over the record companies that are pursuing it through the courts for violating copyright by announcing details of a subscription service. The major record companies would share $150m a year for five years; $50m would be shared among smaller firms. Consumers would have to pay up to $10 a month, perhaps jeopardising Napster's widespread appeal.

See article: Napster's legitimate new plan

Fears surfaced that Italy's antitrust authorities might block **Vodafone**'s *euro*12.1 billion ($11.0 billion) sale of **Infostrada**, a telecoms and Internet group, to **Enel**, a part-state-owned electricity company. Shares in the British mobile operator fell to a two-year low; it ceded its position as Britain's most valuable company to BP.

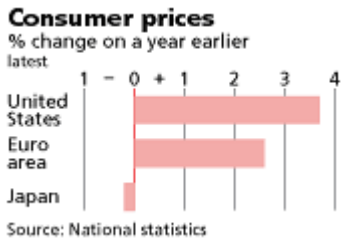
Two German *Länder* challenged the federal government's **ownership of the airwaves**. They asked Germany's federal Constitutional Court to rule on whether they are entitled to part of the DM100 billion ($46.6 billion) raised from the auction of third-generation licences.

Lucent Technologies, a telecoms-equipment maker, was reported to be ready to sell its fibre-optics division. America's Corning, the world's leading fibre-optics company, or Alcatel, a French telecoms-equipment concern, are likely to be interested in the business, which may fetch $7 billion.

Foreign investors, including **News Corp** and **Goldman Sachs**, were said to have taken stakes in **ChinaNetcom**, a state-owned cable-telecommunications company. News Corp has long harboured ambitions to broadcast in China and may hope to bypass rules governing foreign ownership of cable broadcasters by delivering content through a telecoms provider.

Economic fortunes

America's economy is struggling. In January, consumer prices rose 0.6%, bringing inflation to 3.7%. Producer prices rose 1.1% in the month, the biggest leap since September 1990. The University of Michigan's consumer-confidence index saw another large fall in February.



See article: A gloomy look at the economy

Europe's economies appeared to be holding up even as America's slipped. Euro-zone industrial output for December rose a hefty 8% on a year earlier, despite America's slowing demand for Europe's exports, as domestic demand burgeoned. Germany's IFO index of business confidence rose in December for the first time in eight months.

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The world this week

Feb 22nd 2001
From The Economist print edition

Turkish delight

A row between **Turkey**'s prime minister, Bulent Ecevit, and its president, Ahmed Necdet Sezer, over a corruption probe led to turmoil in the stockmarket and to a decision to let Turkey's currency float. It was expected to drop by 30-40%.

See article: Turkey on the brink, again

A prosecutor in Frankfurt said he wanted to investigate allegations that **Joschka Fischer**, Germany's foreign minister, had lied in court last month about his revolutionary past.

See article: Germany's troubled foreign minister

President Vladimir Putin scrapped a draft land code and told Russia's government to write a new one that would give regions the right to decide whether the agricultural-land market should be deregulated.

Britain banned livestock, meat and dairy exports after an outbreak of **foot-and-mouth disease**.

See article: Foot-and-mouth outbreak

The head of the **Basque** regional parliament, Juan Jose Ibarretxe, a moderate Basque nationalist, called an early election. Jose Maria Aznar, Spain's conservative prime minister, hopes the result will be a coalition government, of which, for the first time, the nationalists will not be part.

AP

See article: Spain's Basque elections

The pope distributed birettas to 44 **new cardinals**.

At least eight Serbs visiting family graves in **Kosovo** were killed when a bomb, presumed to have been planted by ethnic-Albanian nationalists, blew up the bus they were travelling in. Albanian Kosovo guerrillas also killed three Serb policemen in a part of Serbia close to Kosovo's eastern border.

A Turkish boat carrying more than 900 Iraqi Kurds thought to be **illegal immigrants** ran aground on the south coast of France.

Iraq gets clobbered

The former Gulf war coalition fell apart after American and British aircraft **bombed** five radar sites near Iraq's capital, Baghdad. Only Kuwait and Canada supported the air strikes. Iraq's foreign minister prepared to talk to Kofi Annan, the UN secretary-general about sanctions, but his government had already denounced as "poison" British and American ideas for refining the system.

See article: Iraq after the bombing

Ehud Barak, Israel's outgoing prime minister, decided not to be Ariel Sharon's defence minister. In

trouble with his own party, he angrily agreed that he would, after all, fulfil the promise he made after being soundly defeated by Mr Sharon to resign as its leader. Haggling over a national-unity coalition continued without him.

Yemenis voted in their first local election, a rare event in the Gulf. They also approved the extension of their president's, and parliament's, terms of office in a referendum.

EPA

See article: Yemen's half-step backward

The ever more authoritarian government of **Zimbabwe** told two foreign reporters, including the BBC's correspondent, that they had to leave the country. Robert Mugabe said he would retire as president when his old opponents had been "thoroughly beaten".

See article: Authoritarian Zimbabwe

Rwanda and Uganda, which have armies in **Congo** supporting the rebels, announced that they would pull back some troops. The United Nations children's agency took charge of 163 Congolese child soldiers it found training in a camp in Uganda.

Hussein Turabi, once a powerful power-broker in Sudan, was arrested by the country's security forces.

Right turn

Australia's centre-right government, which faces a federal election this year, saw its supporters battered in a Queensland state election, as voters switched to Pauline Hanson's One Nation anti-immigration party.

See article: Australia's Hanson effect

India again extended a unilateral ceasefire in **Kashmir**, first granted in November, despite a disappointing response from Muslim separatists.

See article: Another ceasefire in Kashmir

A helicopter crashed in **Myanmar**, killing Lieut-General Tin Oo, a prominent member of the country's ruling military junta.

The International Olympic Committee visited **China** for a four-day inspection of the capital, Beijing, which is bidding to host the games in 2008. As part of the routine clean-up operation preceding visits by IOC delegations, beggars were cleared from the streets and browning grass was painted green.

See article: Beijing's Olympic bid

At least 1m refugees escaping from fighting and drought in **Afghanistan** are now facing famine, according to the United Nations.

See article: Afghanistan and opium

Japanese anger grew over the sinking of a **Japanese ship** by an **American submarine**. It was revealed that the submarine's sonar operator had admitted that his work had been hindered by the civilians that had been on board the vessel.

Cell-phone riots

Two days of riots by 28,000 prisoners in 29 jails across **Brazil**'s Sao Paulo state left 20 people dead. The riots had been co-ordinated by prison gangs

Reuters

using mobile phones.

See article: Chaos in Brazil's jails

Uruguay's government got the green light for its reforms of the bloated state sector: the left-wing opposition failed to muster enough public support to call a referendum over a new law to bring private operators in to the country's ports and railways.

The FBI arrested one of its own senior counter-intelligence officers, Robert Hanssen, on charges of **spying** for Russia. The security breach, described as "exceptionally grave" could be punishable with the death penalty.

See article: A spy is found

Bill Clinton's record for spontaneous clemency came under attack again—this time for his pardon of two felons who paid his brother-in-law $400,000 to help their case.

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Africa's elusive dawn

Feb 22nd 2001
From The Economist print edition

WHO will mend Africa? That it is in trouble is hardly in doubt. Seven or eight of its countries are convulsed by insurgencies, half a dozen more are involved in the war in Congo, several others suffer recurrent ethnic clashes, and another pair, Ethiopia and Eritrea, are licking their wounds after an old-fashioned, and very bloody, border war. Just as worrying, many of the countries that have escaped such fighting are floundering economically. Half of sub-Saharan Africa's 600m people live on just 65 cents a day, and recently they have been getting poorer. Such facts prompted us last year to call Africa "the hopeless continent", and in doing so bring down brickbats galore on our heads. But the nerves touched were not only ours. Thabo Mbeki, South Africa's president, says Africa is marginalised. He is right. Africa's parlous condition is a dreadful condemnation of mankind's collective efforts to end poverty and promote freedom.

In an effort to rectify this, the presidents of the World Bank and the IMF have been touring Africa this week and listening to African leaders. In addition to some familiar complaints, they will have heard about the Millennium African Renaissance Programme, a plan being cooked up by Mr Mbeki and other African presidents to enlist one and all in a joint effort to enable Africa's leaders to "take ownership and responsibility for the sustainable economic development of the continent". The new and welcome part of this worthy endeavour is that Mr Mbeki's starting-point is "a critical examination of Africa's post-independence experience and acceptance that things have to be done differently".

Such an examination, honestly carried out, would indeed be revealing. It would show that for many years the rich world has made it hard for Africa to earn an honest living through trade. The World Bank reckons that, if North America, Europe and Japan were to eliminate all barriers to imports from sub-Saharan Africa, the region's exports would rise by 14%, an annual increase worth about $2.5 billion. Another calculation shows that developed countries' farm subsidies amount to over $360 billion a year, some $30 billion more than Africa's entire GDP. And while the prices of rich countries' exports have been rising, those of Africa's primary products have, on average, been falling (by 25% in 1997-99).

Nor has the rich world always been at pains to promote good government in Africa. During the cold war, it was happy to fight its wars through African proxies, to prop up corrupt regimes and sell them weapons with which to suppress their subjects and swell their foreign debt. Partly as a result, that debt has been crushing for Africa: several countries have been spending more on service payments than on education and health. Meanwhile the aid that helped to assuage western consciences has often been tied to western exports. Recently, as donors have grown weary, official aid has been dwindling—from $32 per African in 1990 to $19 in 1998.

To add to Africa's tribulations, it has been ravaged by disease. Malaria has grown more deadly and resistant to drugs, and a new plague has arrived in the shape of AIDS: South Africa, for instance, can expect 4m-6m of its 43m people to die of AIDS by 2010, leaving some 2m orphans. Few Africans can even begin to afford the anti-retroviral treatments that can keep AIDS at bay in the West, and the big pharmaceutical companies see little point in spending a fortune to develop anti-malaria drugs that will be far too expensive for most of those who will want to buy them.

The rich countries have already abandoned some of their bad habits. They no longer prop up villains. They have untied most of their aid and are increasingly fussy about how all of it is spent. They have recently offered debt relief to 22 of the world's poorest countries, most of them African. Much more can be done, however, in terms not just of reducing trade protection, but also of promoting the development and provision of drugs: rich countries might, for instance, promise to pay the costs of vaccinating Africans against malaria, in order to encourage the pharmaceutical companies to develop a vaccine. And the rich should certainly be more generous with aid that is well spent, as some of it is. Indeed, all the

evidence suggests that aid can significantly improve Africans' lives if they are lucky enough to live in countries with good leadership, sound economic policies and a respect for the rule of law.

The old patterns persist

Alas, too few do. Africa has its successes, Botswana, Ghana, Mozambique, Senegal, Tanzania and Uganda being the countries most often cited. But far too many more, even among those at peace, are misruled. Nigeria, for instance, home to almost one black African in five, has sacked only one senior official for corruption and jailed none, though nearly two years have passed since the democratically elected Olusegun Obasanjo took office, supposedly ending years of venality. Meanwhile, Nigeria is spending nearly $350m on a new football stadium, even as it reschedules its $23 billion foreign debt.

Zambia, to take another example, one of the 22 countries recently given debt relief, has, it seems, mysteriously "lost" $60m in cobalt revenues—a reminder that debts can be accumulated through bungling and theft as well as through worthy spending on social services. Zambia's GDP per person, it should be noted, was nearly twice South Korea's in 1964. By 1999, the Koreans were almost 27 times richer. Kenya, another hopeful country 30 years ago, has also been plundered by its rulers. Even Tanzania, one of Africa's better governed countries, has astonishingly little to show for the $1 billion in aid that was given each year during the 1990s for its 32m people. Zimbabwe provides an even sadder story, that of a country being rapidly impoverished by an ageing autocrat interested only in hanging on to power and driving whites off the land.

A few years ago, the shining exception to the general gloom was South Africa, a country that had suffered more than most but was nonetheless providing a lesson in hope and reconciliation. As our survey in this issue argues, South Africa deserves full credit for some of its policies, including its macroeconomic ones. But not everything is going right. The government is ready to increase spending on defence by almost as much as on health. Spellbound by Mr Mbeki's strange ideas, it is only just starting to allow simple, cheap treatment to reduce the transmission of AIDS from mother to child. It appears hostile to independent investigations of corruption. Above all, the mood of reconciliation is waning. Criticism and dissent tend to be dismissed as racially inspired. Instead of de-racialising, the government is re-racialising.

Mr Mbeki's efforts to lead an African renaissance deserve the support of outsiders. But sceptics are unlikely to change their minds until they see evidence that African leaders no longer regard the state as their private property but are really committed to honest government, free elections, a tolerance of dissent and the unfettered rule of law. There can be no doubt that ordinary Africans hunger after such blessings: from Côte d'Ivoire to Zimbabwe, they take the chance to call for them whenever they can. But most ordinary Africans are ill-served by their leaders. That is Africa's continuing tragedy.

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Abolish the Lord Chancellor

Feb 22nd 2001
From The Economist print edition

Britain's constitutional and judicial reforms, while welcome, have been half-baked. Much more needs to be done

Reuters

HE HOLDS the second-oldest public office in Britain after the queen. He presides as chairman of the Appellate Committee of the House of Lords, the highest court in the land, and can serve as a judge in almost any court. He sits as the speaker of the House of Lords, the upper chamber of Parliament. As if that were not enough, he is also one of the most senior ministers in the British cabinet, who chooses all the country's judges and all the Queen's Counsels, the legal profession's much-coveted badge of eminence. Oh, and one other thing: he wants your money.

The disclosure this week that Lord Irvine, the Lord Chancellor, sent a letter to lawyers soliciting donations to the Labour Party at a fund-raising dinner has caused outrage in the legal profession. Many lawyers profess to feeling a bit, ahem, intimidated. Lord Chancellors wield so much power that, for the sake of appearances, most have pretended to be above party politics. Predictably, various Conservatives called for Lord Irvine's resignation. The government will shrug this off easily. What Lord Irvine did was pathetically tasteless, but not illegal. Instead, the Tories should be demanding the abolition of his office. If they were to do so, they might well win the support of many of Labour's own reformers.

Ironically, the latest blunder by the ham-fisted Lord Irvine—he of the £650,000 ($940,000) flat redecoration—has served a useful purpose by highlighting an increasingly untenable constitutional anachronism. Even by the idiosyncratic standards of British democracy, the office of Lord Chancellor, a senior member of all three branches of government—legislative, judicial and executive—looks odd. No other established democracy has such a figure.

True, Britain has traditionally spurned the doctrine of the separation of powers, which other democracies have embraced as the best arrangement for producing stable and responsible government. But Britain's love affair with "parliamentary sovereignty" has faded recently, and this Labour government's constitutional reforms have introduced checks and balances into British governance which have turned the oddity of the Lord Chancellorship into an embarrassment. For the very man who has managed constitutional change for the government to refuse adamantly to consider any changes to his own office, as Lord Irvine has done, is absurd.

The most pressing issue is the selection of judges, especially those to the House of Lords, which is on the way to becoming Britain's supreme court. The Human Rights Act, which came into effect last October, has given Britain a bill of rights for the first time. As a result, the nation's judges will have to decide highly contentious cases. Many of these will appear, as they do in other countries, to be "political". Such cases will also, probably quite soon, bring senior judges into conflict with the government. If judges are to have any credibility in this new role, it is imperative that their selection be made more independently and transparently than the current "secret soundings" pursued by the Lord Chancellor.

Finish the job

An independent judicial appointments commission, favoured by many reformers and some senior judges, would be a step in the right direction. Labour supported the idea in opposition, but once in office Lord Irvine brushed it aside. He argues that such a move would "politicise" the selection of judges. It might a bit, but this would be no bad thing.

The belief that British judges have never allowed their biases to influence their rulings has always been a fantasy. Most have been culturally and politically conservative white males, and their rulings have often shown it. A still wider scrutiny would be better, involving testimony before a joint committee of both houses of Parliament. There is no reason to believe that this would descend into the nasty rows sometimes seen in America's Congress. Most other democracies manage, with dignity, to balance the need for an open nomination process and the selection of judges on merit.

But the changes must not stop there. With their increased powers, Britain's top judges should be removed from the House of Lords, and this change should not wait for the government to decide what next to do about the upper chamber. If the current Law Lords are truly to become Britain's supreme court, as they should, they cannot also act as legislators. Speaking in the legislature is tantamount to prejudging a case.

And what does that leave for the Lord Chancellor to do? Not much. Part-time, political judges are not in great demand. He could become a minister for justice, but the home secretary does most of that job already. He could confine himself to being the speaker of the House of Lords, but that is a post devoid of interest or power. Frankly, if the Lord Chancellor did not exist, no one today would want to invent him. Britain owes a vote of thanks to Lord Irvine for pointing that out.

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Beijing's bid

Feb 22nd 2001
From The Economist print edition

China has changed, but not enough to get the Olympic games

Reuters

"THIS year is not the first time in history that a certain political and even authoritarian atmosphere has been allowed to permeate the scene at the Olympic games." No, not a report about Beijing's suitability for the 2008 games, but *The Economist* at the time of the notorious Berlin Olympics in 1936. The 17 Olympic committee delegates in Beijing this week are supposed merely to report back on the city's "technical ability" to hold the games. But the concern abroad about Beijing's bid—it is the favourite ahead of Paris, Toronto, Istanbul and Osaka—is China's authoritarian cast.

Is the regime's habitual thuggishness compatible with Olympic ideals of tolerance and friendly competition? It has set its face against democratic freedom. Almost daily its police crack the skulls of followers of the Falun Gong, a spiritual group, in Tiananmen Square (the proposed pitch for the beach-volleyball competition). The "eyesore" of migrant workers has been abolished simply by carting them off. And though Beijing's Communist leaders insist that politics must not be allowed to sully the Olympics, their bid is nothing if not political. If it succeeds, it will, they hope, bring huge political blessings. The games will let them show China's authoritarian philosophy, as well as its sporting prowess, at its finest and help the country on its way towards their dream of Great Powerdom.

All of this, though true, does not, however, make Beijing 2008 quite the same as Berlin 1936, nor even Moscow in 1980. That was when an oppressive Soviet Union was indulging in military adventurism in Afghanistan. By contrast China's leaders were, at just about the same time, beginning to loosen their grip. The result since has been an extraordinary increase in prosperity—and, as a by-product, in freedoms. The great majority of Chinese today live, love and travel how they wish, so long as they do not openly confront the state.

The bid for the Olympics has widespread support in China, where nationalist zeal exceeds Communist zeal and even some liberals think the games would promote political reform, particularly since many of the old guard are due to step down next year, at least from their official posts. They point to the 1988 Seoul Olympics, which, they say, sped South Korea's transition to democracy. So would a Beijing Olympiad do the same for China?

Well, the games might bring some benefits, at least to the wheezing residents of Beijing: efforts might be made to clean up the city's horribly polluted air. But to claim, as China has, that these will be the "green Olympics" is as laughable as the spray-painting this week of the grass along the visiting delegation's route to make it look green. Already, the bid has been a fig-leaf for the wholesale destruction of old Beijing for the profit of corrupt city officials and of Hong Kong developers. Ordinary Chinese are forced to resettle and threatened with up to four years in jail if they protest.

Reform first, games later

Therein lies the true character of China's rulers, which is why political reform would be unlikely to advance as a result of the games. It has, indeed, been frozen since the Tiananmen massacre of 1989, and the leadership shows no signs of being ready to tolerate a thaw. Even this week, while Beijing was advertising its friendly charms in the international press, the police were rounding up more dissidents. At the same time a report appeared documenting the locking up of dissidents in prisons disguised as mental hospitals. Worryingly, too, the government's top religious official said that the Falun Gong would not be allowed to use Hong Kong as a base. Since Hong Kong is the only place in China where the Falun Gong is

a legal organisation, the warning was also a threat to the autonomy promised to the territory.

The world has no cause to honour a government that governs in this way with a sporting event intended to promote human dignity. Beijing's bid should be rejected.

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In search of an Iraqi policy

Feb 22nd 2001
From The Economist print edition

Last week's bombing of radar sites near Baghdad continued a ten-year policy that has by now run its course. It should be replaced

AS THE faces in Washington have changed, so the world, in the shape of the UN's Security Council, has concluded that its policy towards Iraq needs, after ten painful years, to be rethought. George Bush's new team had already made it clear, with a careful growl or two, that its own rethinking would not be to the Iraqi government's liking. But the American and British bombing of radar sites near Baghdad on February 16th seems less a muscular expression of this growl than a hangover from the stale routine of sanctions-and-bomb. Perhaps it is the beginning of something new, bigger and better. But there is no sign, as yet, of what that might be.

The rationale for the bombing is that Iraq had acquired new anti-aircraft equipment that would threaten the American and British pilots who patrol the no-fly zone over southern Iraq. Fair enough: the pilots are owed their safety. The larger question is whether this self-appointed patrol still benefits the people it was meant to benefit. The northern "safe haven" does indeed protect the Kurds from the Iraqi regime's worst designs. But Mr Hussein's toughies can easily bully the unfortunate southerners without recourse to the fixed-wing aircraft that the patrols are there to shoot down.

Moreover, Iraq's Arab neighbours, who were originally reassured by a patrol that kept Iraqi aircraft out of their air space, no longer feel their need. Kuwait apart, they do not these days believe themselves threatened by Mr Hussein—though they are embarrassed both by him and by the West's way of dealing with him.

The bombing has highlighted, yet again, the split in the Security Council that has Russia, China and France on one side, America and Britain on the other. Even so, as the council creeps its way towards a new Iraqi policy, a consensus of sorts seems to have been emerging. Although this is still immensely vague, it does accept, in a general sense, that sanctions should be redirected in a way that prevents, or at least deters, Mr Hussein from acquiring lethal weapons, while releasing the Iraqi population from embargo-inflicted suffocation.

An irreproachable aim, but how to get there? Playing around with the current system is unlikely to work. By now most observers believe that getting weapons inspectors back into the country, after their two years' exile, is a lost cause. On the humanitarian side, the British proposal of "smart sanctions" offers an aspirin where surgery is called for. Iraq can already sell as much oil as it wants, receiving about 70% of the revenue in the shape of food and other supplies. This arrangement allows people to get just about enough calories. But most Iraqis, the new booming elite apart, are still barely above survival level. To recover from its 11 years under the sanctions battering-ram—which has crushed the country's industrial and agricultural infrastructure, its water system, education and the middle classes—Iraq needs the freedom, and overseas investment, of a huge reconstruction effort.

Could this freedom and investment be combined with a rigorous new system for preventing arms getting into Iraq? A fresh approach might be to bargain toughly with Mr Hussein: in return for lifting sanctions, inspectors would be posted at all points of entry. He would be warned that cheating would bring retribution, as would attempts to produce weapons of mass destruction. It would not be a perfect solution, and he might well reject it. But it would be better than the unguarded situation that prevails at present, when any old weapons system can be spirited in, so long as the Iraqis can find someone to sell it to them, paid for from the proceeds of smuggled oil.

Sup, with a long spoon

Bargaining with Mr Hussein is a prospect that sticks in the craw. The overthrow of his vile regime has been the constant sub-text since the first days of sanctions, with their limited official aim. Few would argue that the sooner the man is unseated the better. So far, nobody has found a way of doing so, though judging from certain early signals, Mr Bush may decide to have a go. The danger is that this desire to get rid of Mr Hussein, plus the knowledge that he is bound to turn any new arrangement into a “victory” (but should a mature nation care?), will take precedence over finding the most secure, and most humane, way out of a dangerous blind alley.

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The fugitive president

Feb 22nd 2001
From The Economist print edition

We wish Bill Clinton a quiet retirement, without any tiresome opportunities to again be the "comeback kid"

Reuters

IMAGINE his astonishment. Bill Clinton had served his country for eight long years, selflessly occupying a rather old piece of state property. In that cause, and to ensure that no inferior being could finagle his way into the nation's highest office, he used that property in the most efficient way, raising donations from people fortunate enough to come for coffee or to use its bedrooms. Whenever he was faced with an onslaught from prosecutors, political opponents, scorned women or journalists bent on denying the American people their rightful choice as leader, he used all the gifts given him by God and the Yale law faculty to ensure his survival. A commandment or two might have been broken on the way, but it really depends on what you mean by "broken". And now, after all that, he is being vilified by people who previously paid him to call them his friends. More counselling from Jesse Jackson will be needed—and fully deserved.

His crime? That, in his final days in office, he applied his acute legal mind to the question of whether Marc Rich, a philanthropist and friend of world peace, should be pardoned for having evaded millions of dollars of American taxes. Among others, Mr Rich's ex-wife—such a forgiving person, an example to many other spouses—had lobbied on his behalf. Denise Rich had also given money and chattels to good causes such as the Democratic Party, the Clinton Presidential Library and the new Clinton home, but cannot all intelligent people keep such different matters in different mental compartments? Some also say that he flouted the usual procedure with pardons, by not consulting the Justice Department fully in advance. Do they not know, these critics, many of them former supporters, of Mr Clinton's famed intellectual dexterity? As he put it himself, in an article in the *New York Times*, he had really been quite restrained: "Indeed, other friends and financial supporters sought pardons in cases which, after careful consideration...I determined I could not grant."

But you have to feel sorry for them, those former supporters. Imagine their astonishment. In speeches, in television interviews, in newspaper columns, even in private, they had defended this man for eight years. Some papers, such as *The Economist*, had, after initially supporting him, decided early on that Mr Clinton was too dishonest an individual to be trusted with the presidency, however clever he might be. But such views were only for muddle-heads. Mr Clinton was a much-maligned person, being hounded by people who were politically or financially biased, or for private matters that had no bearing on his role as leader of the free world. So he committed perjury before a federal investigation? A mere technicality, and after all a lie told about the very private matter of an affair with a junior member of his staff.

Always the boy from Hope

Now, those former supporters are also in need of therapy, for they have suffered greatly. They are seeking this comfort chiefly through the op-ed pages, in which they have queued up to say how the pardon for Mr Rich has entirely changed their view of Mr Clinton. They have been betrayed.

Their pain is not, alas, over. For, along with his long record of legal and moral tightrope-walking, Bill Clinton is known for one other thing. You can never count him out. Politically brilliant, he thrives on the limelight, on being a big beast in the political jungle. Who else would have dreamt of moving his presidential office to Harlem when challenged about its extravagance? Even now, as he fumes at his friends' refusal to return his calls or pay his speaking fees, he will be planning a comeback. Here is some advice for his supporters: don't let him back—though, God knows, we're sure you will.

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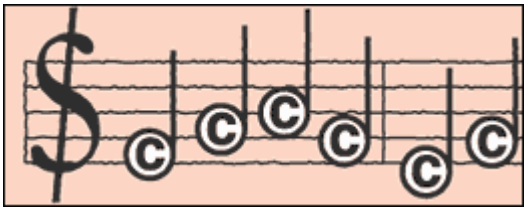
The same old song

Feb 22nd 2001
From The Economist print edition

The record industry is reluctant to do a deal with Napster because its chief concern is protecting its business model, not preventing piracy



STRIP away the legal arguments, and you might conclude that the Napster case, which concerns the swapping of free music files by millions of Internet users, goes something like this. On one side are the record companies, defending artists' rights, as they should; on the other is Napster, an outlaw that has made a mockery of those rights by giving away software that makes music piracy easy. Napster must be stopped, or the record companies' revenues will shrink, artists will see their rightful incomes cut, and new talent will be stifled.

Not so fast. This is certainly how the record industry, in the form of the Recording Industry Association of America, is painting it. But the Napster case is not just, or even mainly, about piracy. It is about business models. The industry wants to stick to its old one—selling expensive compact discs—and to protect it. But Napster's success shows that there is a lot of appetite for a new model. The old model is legal, but the new one is not, since the industry refuses to endorse it.

Artists' interests deserve legal protection, within limits; business models do not. Even the judge in the Napster case, who has declared that the firm "knowingly encourages and assists" piracy, has implied that the industry's refusal to embrace a new model is the root of the problem. "There's no such thing as a free lunch," she said, "but sometimes lunch is more expensive than it should be." She has appointed a mediator to encourage Napster and its foes to settle out of court. Meanwhile, Napster has outlined how it proposes to charge subscriptions and pay royalties to the record companies (see article). A deal with Napster and its 64m users would be an unprecedented opportunity for the music industry to migrate millions of people across to a legal service. Instead, the industry is doggedly trying to shut Napster down.

This sort of thing has happened before. Phonographs were going to kill sheet music, the rise of radio threatened to undermine sales of phonograph discs, video recorders were going to wipe out the film industry, and cassette recorders spelt doom for the music business. In each case, the market-riggers demanded new laws, and often got them. In each case, their fears proved unfounded. The new technologies expanded the market in unexpected ways. Thanks to the radio, sales of sheet music gave way to far more valuable sales of vinyl records. Cinema attendances have surged despite video recorders. CD sales are at record highs—cassette recorders, minidiscs, CD-writers and MP3 notwithstanding.

It is easy to imagine that a subscription-based "universal jukebox", which Napster is now trying to establish, could also boost overall music sales. The preferences of individual users would be easier to discern, which would promote new forms of marketing; and it seems that people often use Napster to sample music before buying it on CD. Yet once again the reaction of the industry has been to demand tighter controls.

There are other reasons to question last week's ruling against Napster. The Consumer Electronics Association, which represents American hardware manufacturers, argues that it may infringe consumers' rights to "fair use" of copyrighted material. Lawrence Lessig of Stanford University, a cyberspace-law guru, suggests that it violates principles laid down by the Supreme Court in a previous debate about online pornography, in which the judges concluded that it was too early to make hard and fast rules about the Internet. Meanwhile, the rules are being tightened in Europe, where the European Parliament has endorsed a copyright directive that, like America's existing Digital Millennium Copyright Act, would give rights-holders more protection and consumers less choice. The rise of digital music technologies, which make copying easy, is given as justification.

Power to the pirates

It is a mistake to tighten copyright controls because of record companies' worries about Napster. The existing law is more than adequate—it is, after all, about to shut Napster down, unless a deal can be struck. And the lesson of history is that calls for tighter controls always accompany the rise of new ways of doing business—innovations that usually, in the end, expand the market. The record industry, which grew by a mere 3% last year, should be looking for new ways to grow, and should embrace Napster's new model. Instead, by attempting to shore up its fossilised business practices under the dubious banner of artists' rights, it is deliberately stifling innovation, and delaying the advent of a legal version of the "universal jukebox" that consumers so clearly desire.

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Letters

Feb 22nd 2001
From The Economist print edition

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Solbes and the euro

SIR—Your leader on Ireland ("Ireland's euro-sins", February 17th) fails to take into account the fundamentals of the EMU model. The notion of national but co-ordinated economic policies is not only embedded in the Maastricht treaty but is also necessary to ensure an appropriate policy mix against a background of a single monetary policy. The coherence, consistency and predictability of the euro-area's economic policy management is important for the credibility of our currency over the medium term. Big or small does not make any difference here. The commission will act according to the treaty any time inconsistencies of a similar nature appear.

PEDRO SOLBES
EU Commissioner for Economic and Monetary Affairs
Brussels

Arab information

SIR—You claim that "the fear that Arabs 'in the street' can force governments to action" is long gone ("Sharon's Israel", February 10th). This is wrong. The crossborder influence of satellite television, like Qatar's Al Jazeera station, as well as the Internet, has broken completely the monopoly on the control of information previously held tightly by Arab governments. This has had a powerful impact on the diplomatic behaviour of Arab leaders since the start of the latest Palestinian *intifada* last September. To ignore popular feeling could risk local demonstrations on local grievances, legitimised by displays of support for the Palestinians.

SIMON HENDERSON
London

SIR—Your article on the reaction of the Arab world to Ariel Sharon's election contains an error in military history ("Fear of Sharon", February 10th). You say that "Egyptians remember that it was Mr Sharon who flouted a ceasefire during the 1973 war, counter-attacking across the Suez Canal to turn Egypt's initial success into near-defeat." In fact, there was no ceasefire until Israel had already been on the west bank of the Suez Canal for four days. The first ceasefire was broken by Egyptian units that had been surrounded and were trying to break through to their own lines. By any military standards, Mr Sharon and his compatriots had turned the Egyptian attack into a complete defeat. Only pressure from Henry Kissinger kept the Egyptian 3rd Army from being destroyed totally as the ceasefire became final.

DAN POLLAK
Delran, New Jersey

SIR—Milton Hirsch (Letters, February 17th) quotes Arthur Balfour. Could I remind him of a passage in the Balfour Declaration that tends to be forgotten by Israel's apologists. It stipulates that nothing should be done "which may prejudice the civil and religious rights of existing non-Jewish communities in Palestine." It is precisely this which successive Israeli governments and Jewish settlers in the occupied territories have been doing for decades.

PATRICK WRIGHT
London

Bath control

SIR—The Japanese bathhouse owner who balked at admitting a recently naturalised foreigner ("Bathroom blues", February 10th) is in company that is easily recognisable. London's gentlemen's clubs, America's country clubs, nightclubs and other private businesses often screen their members. But the Japanese bathhouse owner on the rural island of Hokkaido is surely atypical. As a resident of Japan for 26 years, I used neighbourhood bathhouses in my student days and was never rejected. Estate agents often declined to present me to landlords, but you persevere until you earn acceptance.

Though it is possible to acquire nationality here, Japanese still chiefly tie the concept to one of blood, not residence. Thus, there is not a satisfactory Japanese word for "citizen". But having worked for Japanese companies, obtained a permanent-resident's permit and bank loans, purchased a house, and married and raised children whose Japanese mother can confer nationality, I do not think the tired argument that Japan is closed holds much bathwater.

BRUCE ROSCOE
Yokohama

Diplomatic immunity

SIR—Brazilian diplomats are unused to defending their country's interests ("Trade beefs", February 10th). After industrialisation began in Brazil in the early 1950s rapid growth was the outcome of a state-led strategy based on protection and subsidy. Trade was seen as an evil that perpetuated technological, financial and military dependency on the countries of the north. Under this ideology a school of foreign-policy thinking emerged at Brazil's Ministry of Foreign Relations. Its influence was strengthened as industrialisation advanced and diplomatic instruction and careers became more structured.

In the early 1990s a so-called neo-liberal revolution struck in Brazil. If the turn in economic policies was rapid and effective the same cannot be said about ideological change in the higher echelons of the diplomatic service. In spite of a general recognition of the quality of their instruction, Brazilian diplomats are still generally critical of the idea that freer trade is intrinsically good for the country. That ideological bias, in turn, reduces their willingness to seek to reduce trade barriers erected against Brazilian exports by industrialised nations.

CARLOS PIO
University of Brasilia
Brasilia

After a fashion

SIR—As you say, the main achievement of Rose Marie Bravo at Burberry is to have rejuvenated a brand that has needed it for some time (Face value, February 3rd). Burberry has improved its presentation in the media, brought in new designers to improve style and fit, regained control of overseas licences and cut the cord with the Asian market making it a trendier British brand. Other problems, such as the Asian grey market, were on Burberry's agenda well before Ms Bravo came on board.

As for the transformation of Burberry's image, this also started before Ms Bravo joined. It had been obvious for years that Burberry needed a facelift and new advertising campaigns with younger models and well-known photographers had been launched already. Ms Bravo pushed this further and moved the image to a very much younger and trendier market.

SANDRINE HARRIS
Frankfurt

SIR—Sometimes, lack of public acceptance of a brand is a result of unfortunate associations of which the maker may be unaware. Some years ago, a friend bought a Burberry raincoat but his wife dissuaded him from wearing it. It seemed that she had heard that it was of the type favoured by flashers.

JOHN ROBERTS
Colinton, Canada

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TURKEY'S FUTURE

The Cyprus conundrum

Feb 22nd 2001 | NICOSIA
From The Economist print edition

AS IF it did not have enough to do on the home front, Turkey also has to work out what to do about Cyprus: or, more specifically, about the Turkish-Cypriot minority who, since the Turkish army invaded in 1974, have lived separately from the island's Greek majority in what they call the "Turkish Republic of North Cyprus" (TRNC). The question has become the main block to Turkey's hopes of joining the European Union in the near future.

In 1998, the EU began membership negotiations with the internationally recognised (ie, the Greek-run) part of Cyprus. The EU, it seems, believed this prospect would entice the Greek-Cypriot government and the Turkish-Cypriots into a deal that would reunite the island. A year later, the EU'S formal recognition of Turkey's own candidacy for membership was meant to give unity an extra push. Not so.

Last December, Rauf Denktash, the combative ex-barrister who has led the Turkish-Cypriots for nearly three decades, pulled out of the latest, year-long round of "proximity talks". And he'll stay out, he says, until his TRNC is recognised as an "independent political entity" with a status equal to that of the Greek-Cypriot part of the island.

Mr Denktash also refuses any role in talks with the EU: membership ahead of a settlement in the island, he argues, would enable tens of thousands of Greek-Cypriots to go back north and reclaim the property from which they fled or were ejected after Turkey's invasion.

Bulent Ecevit, Turkey's prime minister, is the very man who ordered that invasion. He agrees with Mr Denktash that the only way ahead in Cyprus is a confederation of two equal and independent states, with Turkish troops (some 30,000) remaining on the island to protect the Turkish-Cypriots, who are outnumbered four to one.

With Greece threatening to block all EU expansion if Cyprus does not get in, the EU is in a squeeze. It would be a "nightmare", says a a senior EU official, "if the Greek-Cypriots get in on their own." Turkey does not believe the EU countries would risk alienating a vital NATO ally that way. Yet suppose they did?

In Cyprus, says Mr Denktash, his community "would have no alternative but integration with Turkey". Not all Turkish-Cypriots would welcome that. Half of them were not even alive in 1974. And, according to one Turkish-Cypriot survey, only 8% want integration with Turkey, against 32% who favour a loose confederation with the Greek-Cypriots, 23% who want full independence and 5% who dream of the old, undivided island. On one thing nearly 90% agree: they want to join the EU.

You can see why. Since 1974, the once-prosperous Turkish-Cypriots have grown steadily poorer while Greek-Cypriots have grown richer. Official figures put GDP per person in the Turkish bit of the island at one-fifth of the $17,000 in the Greeks' southern chunk. Many Turkish-Cypriots have left for a better life in Britain, one-time ruler of the island. In their place mainland Turks have flooded in, mostly poor, uneducated people from Turkey's southern provinces. Vargin Varer, the outspoken president of the North Cyprus young businessmen's association, says that by now there may well be more mainland Turks in Cyprus than Turkish islanders.

Like many in business, Mr Varer believes the future lies with the EU, not Turkey. "The EU", he says, "is our obvious market." And, in rising numbers, Turkish-Cypriots (and Turks) are starting to say that exclusion from that club is too high a price to pay for preserving the status quo in what Turkey's influential generals openly term a "strategic Turkish outpost".

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TURKEY'S FUTURE

On the brink again

Feb 22nd 2001 | ISTANBUL
From The Economist print edition

Only three months after its last financial crisis, Turkey is in the grip of another. The real danger is to political reform—and to Turkey's hopes of joining the European Union

TO SEE how Turkey's national mood has swung from elation to despair over the past year, look no further than the Istanbul stockmarket. Throughout 1999 and early 2000 the main market index rose by a dizzying 650%, buoyed by hopes that Turkey would finally get a stable government that would get the country's chronic inflation, big budget deficits and sky-high interest rates under control. The dream seemed to be coming true: an unlikely but durable three-party coalition took office, drew up a disinflation programme with the IMF, became a candidate to join the European Union and set about all manner of reforms with zeal.

EPA

Sezer threw the book at Ecevit

But since last spring the outlook has turned much gloomier. In May, the government coalition came to blows over the selection of a new president. In November, a banking crisis brought the country to the verge of financial collapse before the IMF rode to the rescue with a $7.5 billion loan. A series of diplomatic rows soured relations with the EU. Then, on February 19th, the prime minister stormed out of a meeting with the president and declared a political feud. The markets, naturally enough, took the news badly: within two days, the Istanbul index had fallen by 63% from its peak, having plunged by 18% on that day alone. The twitchy traders, like Turks in general, fear that in-fighting will distract or even topple the government, and hence bring Turkey's much-needed economic and political overhaul to an untimely end.

Kriz? What kriz?

The irony is that the latest *kriz*, or crisis, has little substance. Ahmet Necdet Sezer, the president, apparently chided Bulent Ecevit, the prime minister, for his half-hearted pursuit of corrupt politicians. Mr Ecevit doubtless fears that too ardent an investigation into several suspect ministers will prompt the collapse of his already awkward coalition. But he seems to have taken more umbrage at Mr Sezer's bad manners—the president is said to have thrown a copy of the constitution at the bristling prime minister—than at the substance of his comments. Mr Ecevit seemed genuinely surprised that this spat has sent the markets tumbling, and held a press conference to say that he would not allow his differences with the president to interfere with the disinflation programme.

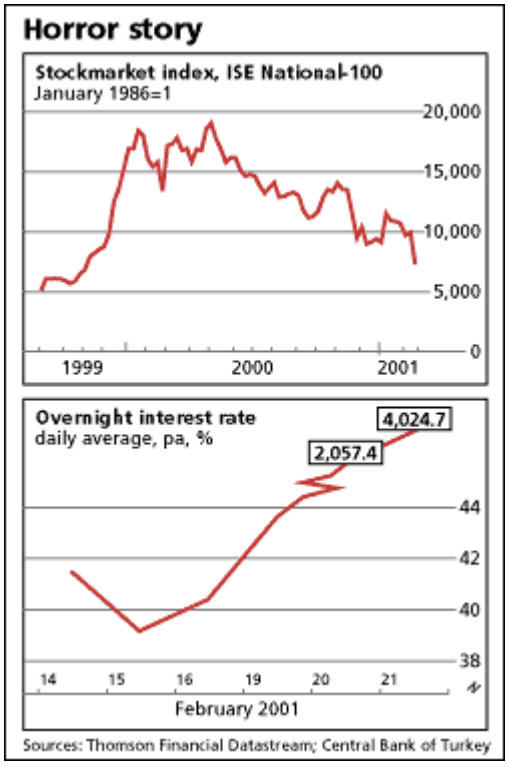
Unfortunately, the programme's fate is out of Mr Ecevit's hands. Jittery investors (many of them foreigners) pulled $5 billion out of Turkey on February 19th alone. At that rate, the central bank's foreign reserves of around $20 billion would soon have run out. So, on February 22nd, the government announced it would allow the Turkish lira to float freely—in other words, to devalue. Since the government's chief method of taming inflation has been to devalue the lira gradually along a predetermined path, the risk now is that inflation will jump.

Traders had already sent interest rates soaring: at a government auction on February 20th, Turkish treasury bills with a one-month maturity sold at an average annualised yield of 144%. Overnight

rates for banks run to thousands of percentage points. The higher cost of financing its debt will hit the government's deficit targets, another critical component of the disinflation programme.

The last time Turkey reached such a pass, in November, a timely dollop of cash from the IMF bailed the government out. Turkish officials can point to the fact that, for all the upheaval, the programme has been working well. Inflation has fallen from almost 100% a year to the mid-30s. Debt-servicing aside, the government is running a healthy and growing budget surplus. If anything, the disinflation programme has been a victim of its own success: inflation and interest rates fell so sharply last year that the economy boomed.

It was only when optimistic Turks started snapping up imports that investors began to doubt that foreign capital inflows would be sufficient to fund both spendthrift consumers and the perennially penurious government. The cost of borrowing began to creep up again, a big bank that had bet on cheaper money failed, foreign capital took flight and Turkey found itself in a vicious circle of wobbling banks and spiralling interest rates. As a condition of its life-saving loan, the IMF insisted that the government clean up the banks and speed up privatisation to lure back foreign investment.



It is the government's slow progress on both these fronts since November, rather than the tiff between Messrs Ecevit and Sezer, that has given investors pause once more. A row in parliament delayed procedural changes that would have speeded the passage of critical legislation. The sale of a 33.5% stake in Turk Telecom, the state-owned fixed-line monopoly, has not drawn a single foreign bid. A 51% stake in Turkish Airlines, a state-owned airline, looks likely to fizzle too. Meanwhile, the rot in Turkey's banks seems to have been much worse than was realised. One financier was caught on a security camera leaving the vaults of his bank with a cash-stuffed suitcase. Sorting out a mess like that is likely to take several years.

The government is pressing ahead with reform: a long-awaited law on liberalising Turkey's energy markets finally cleared parliament this week. But that measure on its own will not restore confidence in the government's resolve. The events of the past few days show the markets so jumpy that the smallest bump can send them into a tailspin. Both the IMF and private investors might regard one financial upheaval as unfortunate; two look like downright carelessness.

For all the financial disruption, the worst fallout from a collapse of the disinflation programme would be political, not economic. Turkey, after all, has muddled along with double-digit inflation, big budget deficits and see-sawing markets for the better part of the past 20 years. Turkey's banks may suffer, but since the banks lend all their money to the government rather than businesses, the private sector may not feel the pinch so severely. High inflation may stifle Turkey's economy, but it will not kill it.

Nonetheless, the programme's collapse might kill off hopes of changing of Turkish society more profoundly. Turks view the disinflation programme as part and parcel of a hoped-for transition from an introverted, statist and authoritarian past to a liberal, democratic and cosmopolitan future. Indeed, the programme was expected to succeed precisely because it coincided with the defeat of Turkey's Kurdish insurgency, a retreat of the armed forces from politics, an attack on corruption, an advance in the protection of human rights, a reduction in tension with Turkey's neighbours and, above all, a redoubled effort to get Turkey into the European Union.

On all those fronts, as on the economic one, things have looked a little ropey lately. The quiet that has reigned in Turkey's south-east since the defeat of the Kurdish guerrillas in 1999 has been shattered by the assassination of a local police chief and the disappearance of two Kurdish politicians during a visit to the military police. The generals (who mounted their most recent coup in 1980, and forced a change of civilian governments just four years ago) have lately renewed their public criticism of politicians, on everything from foreign relations to corruption. The perception that Turkey's dismal record on human rights was improving has suffered from new scandals, including the brutal repression of prison riots in December, and the revival of charges against Virtue, the biggest party that dares to air mildly Islamist views.

The biggest setbacks have been diplomatic. The Turkish armed forces undid much of the recent improvement in relations with Greece when an argument occurred over airspace in the midst of NATO exercises last year. Another dispute, about the extent of Turkey's role in the EU's planned new defence force, rumbles on despite Bill Clinton's personal intervention. In place of the constructive dialogue that led to Turkey's acceptance as a candidate for EU membership in December 1999, a lot of senior Turkshave reverted to their standard sullen denunciations of European bias against Turkey. The government has delayed the publication of its blueprint for bringing Turkish law into line with that of the EU. And so the list goes on.

A collapse of the disinflation programme could exacerbate all these problems. For a start, back-tracking on the economy would threaten the present government coalition. Its unlikely mixture of economic liberals and left- and right-wing nationalists agree on little apart from their desire to set the economy to rights. If there were new elections, the right-wing nationalists would profit most. There is certainly a risk that Turkey will retreat into the sort of snarling isolationism and economic doldrums that accompanied the last twin collapse of a government and an IMF-reform package in 1996. That brought Turkey to the brink of hyperinflation and war with Greece.

But such a cataclysmic prospect could also encourage the present government to keep the disinflation programme afloat. Likewise, most of the recent setbacks to Turkey's reform programme can be read in two ways. The government agenda has certainly hit enormous obstacles, both political and economic. Worrying as that is, it at least shows how revolutionary the reforms are, and how far they have been taken.

Looking on the bright side

The role of the armed forces serves as a good example. Recently, in a typical heavy-handed intervention into the political realm, they forced the closure of a website where anonymous surfers criticised army life and lampooned senior officers. To outsiders, that sounds like a setback for freedom of speech. But for many Turks it is remarkable and encouraging that the website ever existed in the first place, that the press publicised it, and that some commentators even dared to protest against its eventual demise. By the same token, the top brass's recent outbursts against the politicians have been met by unprecedented criticism from columnists, ministers and even—albeit in a veiled fashion—from Mr Ecevit himself. Just as Turkey's banks are learning the hard way to wean themselves off their constant diet of government debt, so Turkey's generals are making the discomfiting discovery that their writ no longer runs as far as it once did.

The disagreements with the EU also have a positive side. Turkey is complaining that the EU does not take it seriously as a candidate, and is always trying to slip in extra conditions for membership. As Karen Fogg, the EU's ambassador in Turkey, points out, it was inevitable that Turks would lose some of their rosy but nebulous feelings about joining the EU as soon as they learned the precise and often painful preconditions for membership. But now that the EU has published those requirements in a document called an accession partnership, both sides can hold one another to an agreed set of principles and even a rough timetable. Reforms that seemed unthinkable even a couple of years ago, such as lifting the ban on teaching and broadcasting in Kurdish, are now the stuff of parliamentary subcommittees and newspaper editorials. In other words, the process of accession has taken on a bureaucratic momentum of its own.

Even the row between Messrs Ecevit and Sezer can be interpreted in a happier light. Mr Sezer, a former judge, seems to take his constitutional duties reassuringly seriously. Since his election last May, he has overruled several of Mr Ecevit's decrees, including one that would have authorised his government to sack hundreds of civil servants deemed to be over-pious (ie, with Islamist political leanings) or over-sympathetic to the country's 12m or so Kurds. It was Mr Ecevit's objection to a special presidential investigation into graft in the country's ailing state banks that apparently prompted Mr Sezer to throw the book at him, quite literally.

The president's insistence that expediency cannot override the rule of law marks a dramatic change from the corrupt, clubbish and irresponsible tone of Turkish politics since the restoration of democracy in 1982. Pollsters report that his near-obsession with probity has made him more popular with Turks than the armed forces are—a first for a politician. No wonder that readers of Turkish newspapers, far from writing in to condemn the president's caprice, have inundated the letters-pages with statements of warm support.

Indeed, the Turkish press reveals a surprising *sang froid* in the face of Turkey's current straits. One commentator speaks of a difficult birth, complete with blood, pain and fainting doctors, that might yet result in a healthy child. Another observer likens Turkey to a spotty and sulky adolescent going through normal rebellions on the path to adulthood. All the images, whether of bumpy roads, stormy seas, or even a violent stomach pump, hold out the promise of eventual redemption. Few seem to doubt that Turkey will one day become a more economically stable, democratic, open place. The questions that remain are how long it will take, and how many more crises there will be along the way.

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Changing camels in mid-dune

Feb 22nd 2001 | WASHINGTON, DC
From The Economist print edition

Colin Powell wants to shift the focus of America's Middle Eastern policy from Israel to Iraq

GEORGE BUSH has enjoyed his honeymoon in Washington by following a political version of Colin Powell's military doctrine: identify a few clear targets; aim for victory; marshal overwhelming force; have an exit strategy. Now Mr Powell is about to offend against all the tenets of his own doctrine. This weekend he begins his first foreign visit as Mr Bush's secretary of state by going to that graveyard of expectations and destroyer of clarity, the Middle East. It is the first real test of Mr Bush's intent to inject a new hard-headedness into foreign policy.

The administration argues American authority and prestige have been lost in the region, largely because of the failure of the Oslo peace process in which (Mr Bush thinks) Bill Clinton invested too much. The unstated aim of Mr Powell's visit is to begin rebuilding that authority and the way he has chosen to do it would—assuming he can carry it out—shift the primary focus of American policy away from the Israeli-Palestinian peace process towards Iraq.

The idea is far from stupid: if America were able to neutralise or even overthrow Saddam Hussein, its regional prestige would indeed soar. But even leaving aside the tough question of what it can actually do about Saddam, there are doubts about whether America can even shift the focus in the way it wants. Mr Clinton, after all, came into office promising to do much the same thing.

This time, the regional balance seems favourable to a policy shift. The Oslo peace process is dead. Israel will soon get a new government. The sanctions regime against Iraq is falling apart. In the Arab world, sanctions fatigue is turning into sanctions outrage. In America, fatigue is turning into sanctions defeatism. Every part of America's Middle Eastern policy is now under review.

Before and after his election, Mr Bush argued that Mr Clinton was embroiling himself too deeply in the minutiae of Israeli-Palestinian negotiations. He claimed that America was wrongly seeking to impose its own deadlines on the parties. And he concluded that if the two sides were not ready for a settlement, then no amount of American involvement could help them. Putting this in practice is the easy part. America can easily distance itself from a peace process that doesn't exist. However, the implications of Mr Bush's views go further.

To begin with, it suggests Mr Bush may be willing to wait for several years before engaging in the peace process again. The State Department is sceptical of optimists' claims that Ariel Sharon, Israel's tough new prime minister, might turn into an unlikely peacemaker. In reality, America's Middle Eastern policymakers reckon that Mr Sharon's record ("grab the hilltops"), his militant supporters and his unwillingness even to talk about Jerusalem all militate against peace.

By the same token, Arab hopes that America might put active pressure on Israel also seem unlikely to be realised. The main reason for this hope appears to be that in 1991 Mr Bush's father threatened to suspend loan guarantees to Israel over the issue of illegal settlements. But it is not clear that the younger Bush could make that sort of threat even if he wanted to.

Over time, Republicans in Congress have become increasingly pro-Israeli (especially with Jesse Helms as head of the Senate foreign relations committee). There is even talk in Congress about putting the Palestine Authority back on the list of state sponsors of terrorism. The absence of a peace process also means the administration can no longer head off actions by pro-Israeli congressmen by arguing that they could upset the talks.

In practice, America's main policy aim in Israel will switch not from engagement to disengagement, but from peace making to damage limitation. This has implications beyond Israel. Mr Bush's advisers argue that Mr Clinton's concentration on the peace process was not merely unwarranted, but in some ways harmful. The charge is that the former president saw the whole region through the prism of the peace process. This led him to ignore the increasingly destabilising influence of Iraq and to neglect bilateral relations with other countries in the region.

The fraying of the Gulf war coalition—as the Bush administration sees it—was the product of America's obsession with the peace process. The Bush response is to start rebuilding those ties. This does not appear to be the sort of abrupt American unilateralism that many people fear. Rather, it makes more sense to see the new Bush administration as trying to rebuild the Gulf war coalition of George Bush senior.

The main aim of the rebuilding is to tackle Saddam Hussein, which means in the first instance changing the sanctions regime. The new administration does not think sanctions have failed completely. But they are a big obstacle to hopes of improving relations with Arab allies. At his confirmation hearings, Mr Powell said that America used sanctions too readily. Iraq will be the first test of whether he can get the policy right.

The aim is to accept a less comprehensive embargo over civilian exports in order to gain wider international support for a tougher regime over military supplies. This would involve setting up something that resembles the Cocom controls over high-tech exports to the Soviet Union during the cold war. Purely civilian exports would be unrestricted (most of them are anyway). So would "dual use" goods that are largely civilian. But to police the ban on military equipment, America wants more vigorous controls on smuggling and some sort of inspection regime within Iraq to check on how "dual use" goods are being used (to stop them being hijacked for military purposes).

Baghdad blues

Leave aside for a moment the critical question of how much good this would really do. Mr Powell is likely to get support for something like this change. Most American allies believe it is possible both to contain Mr Hussein and meet their humanitarian (and commercial) aims. Despite the almost universal condemnation of last week's air attack near Baghdad (see article), the State Department also reckons it can get international agreement on how much military force to use to back up any new sanctions regime—certainly to destroy weapons of mass destruction; probably to defend American and British airplanes patrolling the no-fly zone.

The real unresolved question is whether America goes further and seeks to overthrow Saddam. There are two small signs that it might be considering the idea. The first is the appointment of Paul Wolfowitz as deputy secretary of defence: he is the foremost advocate of supporting the Iraqi opposition to destabilise the regime. The other is a change of policy towards the opposition itself. On the day of the air strike, and without any fanfare, the head of the Iraqi National Congress, one anti-Saddam group, visited the State Department and came away with a promise that America would help the INC run humanitarian operations and gather evidence of war crimes within Iraq itself.

At the moment, the support is minor. But any increase in support could destabilise American policy more than Saddam. Seeking to overthrow the regime is anathema to most of America's allies. State-Department officials have made it clear that, while everything else can be discussed, support for the Iraqi opposition is something on which America is prepared to go it alone.

As a strategy, the apparent shift in American Middle Eastern policy has a lot to commend it. America

cannot do much to encourage Israel and the Palestinians to make peace, whereas its Iraqi policy needs an overhaul. Moreover, in the early 1990s, its peace-making efforts depended partly on the prestige it won in the Gulf war—a formative experience for many of Mr Bush's team.

Still, as so often in the region, this shift of attention raises as many questions as it answers. First, there is the sheer technical difficulty of keeping a meaningful "dual use" list of exports as part of a new sanctions regime. More generally, it may be impossible to rebuild the Iraqi economy without helping the Iraqi army as well. Next, the Iraqi opposition is not remotely a match for Mr Hussein's brutal security forces, but any serious attempt to undermine him could wreck attempts to build support for new sanctions.

Lastly, America might find it hard to distance itself from events in Israel. The reason is not Israel itself, but the Palestinians. The State Department is currently fretting that the Palestine Authority might collapse, taking Yasser Arafat's declining authority with it, and leaving Hamas guerrillas in control. That would provoke new violence in Israel, and even greater anti-Israeli (and anti-American) popular sentiment in the region. America would end up back where it starts from—trying to patch up some sort of truce in Israel to prevent problems there undermining its ambitions in Iraq.

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Spies

Daggers drawn

Feb 22nd 2001 | LONDON, MOSCOW AND WASHINGTON, DC
From The Economist print edition

IT WAS, said President George Bush, a “difficult day for those who love our country”, not least for people who serve America in the fields of law-enforcement and intelligence. The arrest of Robert Hanssen, a 27-year veteran of the FBI, on charges of spying for Moscow, was also a landmark in Russian-American relations that have already acquired a harder edge under Mr Bush.

AP

I spied

According to the FBI’s affidavit, Mr Hanssen was well-placed by virtue of his seniority and access to sophisticated technology to harm the security of the United States while covering his own traces. He helped to seal the doom of at least two Russians who trusted their lives to American intelligence, and apparently handed over 6,000 pages of sensitive material to Russia. His case compares in gravity with that of Aldrich Ames, a senior CIA man who was arrested in 1994.

Mr Hanssen served in counter-intelligence for 15 years, snooping on Soviet, and later Russian, spies in America. Leaks from counter-intelligence are a spymaster’s worst nightmare: your plots against the opposition are at best useless, at worst very damaging to yourself. Mr Hanssen allegedly passed on the secret electronic snooping methods the FBI uses to track Russians in America.

During the Ames affair, the CIA had to endure the humiliation of being investigated by its rivals at the FBI. The latter, at least, is cleaning out its own stables. That (along with his popularity among Republicans as a zealous investigator of Clinton-era scandals) is one reason why Louis Freeh, the FBI director, still sounds remarkably cheerful.

In defence of its own record, the FBI can point out that, unlike the extravagant and boozy Mr Ames, the newly uncovered agent was not leading an obviously suspicious life. Mr Hanssen lived boringly in Vienna, Virginia, and he was discreet to the point of paranoia; even his Russian handlers seem not to have known his name.

The FBI apparently caught up with him after it got hold of his Russian file, presumably from a Russian who was spying for America. One theory, floated in the Russian newspaper *Segodnya*, is that Mr Hanssen was betrayed by Sergei Tretyakov, a Russian who defected while working at the UN.

How seriously will the Hanssen affair damage whatever remains of the old “superpower” relationship? One school of thought holds that the cat-and-mouse games of espionage are an unimportant sideshow, separate from the real business of international relations, which has to do with real things like trade, education and anti-missile defence. (The day after Mr Hanssen’s arrest, the Russians proposed a pan-European missile-defence system, which the Bush administration did not think much of but may see as the first step towards a deal on the issue.)

In the real world, too, there have been a few signs of greater toughness on both sides. Though there is no reason to assume any connection, Mr Hanssen’s prosecution follows some blunt language from the new administration. Donald Rumsfeld, the defence secretary, has deplored Russia’s work as an “active proliferator” of deadly weapons.

Such words are probably not intended to imply any dogmatic hostility towards Moscow: merely that Russia cannot, on the strength of its old superpower status, expect to be treated with greater indulgence

than any other country. “The Clinton administration began with romanticism in its dealings with Russia and ended by pretending things were better than they were,” says Tom Graham, a former American diplomat. “The Bush people will not play either game.”

The gloomier interpretation is that Russia does matter to America’s new governors—but only as a “national security” challenge. The Clinton administration’s flirtation with Russia as a global partner, or eager pupil at the school of market economics, is well and truly over. Ian Bremmer of Eurasia Group, a New York consultancy, points out that the Treasury took the lead in dealing with Russia under Bill Clinton: but “now it may be the defence department or the National Security Council.” If that prediction comes true, then scandals over espionage and defence technology will not be a sideshow, but much closer to the main event.

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Lexington

Disabling the national education defence system

Feb 22nd 2001
From The Economist print edition

IT IS easy in Washington, DC, to imagine that you are in control of America's destiny. In fact, everything that George Bush does this week—or perhaps even this month—may be small beer when set beside a technical announcement from a provincial academic bureaucrat. Last weekend Richard Atkinson, the head of the University of California, announced that he would drop SATs from the selection process in his university, first by scrapping standardised aptitude tests, half of the acronym, and then by phasing out standardised achievement tests. The decision, which comes at a time when Mr Bush is trying to introduce objective national tests into the high-school system, could be a calamity not only for America's universities but also for its guiding principle, meritocracy.

A notoriously mundane examination system that seems to involve ticking an unearthly number of boxes would seem an odd instrument of revolution. But it transformed American higher education from an old-boy network into a social ladder.

To get a flavour of this revolution, consider a tale of two Bushes. When father Bush went up to Yale in the mid-1940s, it was primarily an upper-class finishing school. Twenty years later his son entered a university that was changing around him. Talented students were arriving from every social class. The centre of university life was shifting from fraternities to lecture halls. All of George senior's younger brothers were Yalees. None of George junior's brothers made the Ivy League.

This revolution was the handiwork of a small group of Ivy League academics, worried that America might be degenerating into a class-stratified society. Preppies, they reasoned, would always thrive in a system focused on teachers' reports and set examinations. The only way to get access to the full range of talent was a standardised test of ability.

The University of California played a heroic part in carrying this revolution across the country. As the nation's foremost public university, it proved that you could get a first-class education without paying a fortune to Harvard or Yale. It blazed a particularly valuable trail in providing educational opportunities for Asian-Americans. The university's chief campus, Berkeley, boasts plenty of students brought up in hard-scrabble Chinatowns, many of them in households where English was seldom spoken. Their talents were discovered by SAT tests.

So what on earth is this university, with 170,000 students and 20 Nobel laureates, doing leading the attack on SATs? The answer is a mixture of (legitimate but probably misguided) academic tinkering and (repugnant) political correctness. The politics is simple. The abolition of affirmative-action programmes in 1997 led to a dramatic reduction in the number of blacks and Latinos in the university, in part because both groups score substantially worse than whites and Asians in SATs. Ever since then, Mr Atkinson and his friends have been trying to improve UC's racial profile. Last autumn, for example, they offered automatic admission to the top 4% of students in every high school in the state, whether the school is in Beverly Hills or South Central. From this point of view, scrapping SATs is simply the next step in adjusting the balance (if you are on the left) or dumbing down (if you are not).

Admittedly, there are some genuine problems with the SAT system. The tests are far less "objective" than the gigantic testing industry claims. Preparation substantially improves test scores. Mr Atkinson experienced his epiphany when he visited a smart private school and saw 12-year-olds practising for their SATs. So it makes sense to use SATs alongside other measures.

The University of California does so. It awards places on the basis of several things, including SATs, grade-point averages (GPAs), teacher recommendations and school records. Mr Atkinson wants less emphasis on the numerical assessment of “aptitude” and more on judging candidates in a “comprehensive, holistic” way.

Which sounds irresistible. Who wouldn’t prefer to be evaluated “holistically” and “comprehensively” rather than allowing his fate to be decided by a glorified quiz? The problem is that this ignores both educational experience and Californian reality. Time and again, when people have got rid of flawed-but-still-useful aptitude tests, they have chosen “holistic” programmes that are even worse (witness the catastrophic decision to abandon the 11-plus in Britain for “comprehensive” education).

Holistic testing will not mean much in a university system that processed 68,000 applicants for about 28,000 freshman places in 2000, and expects its senior academics to spend their time pushing forward the frontiers of knowledge rather than interviewing 18-year-olds. The practical choice is not between broad-brush testing and fine-grained evaluation, but between broad-brush testing that has some degree of rigour and broad-brush selection that is open to manipulation.

Looked at this way, the SAT test still does its job fairly well. SATs are more successful than GPAs in predicting students’ grades in almost every subject. It cannot be entirely coincidental that America’s SAT-backed universities are the envy of much of the world, whereas many of its high schools, without any objective national testing, are dreadful (hence Mr Bush’s reforms). Anyway, holistic testing may well benefit the well-prepped children of the wealthy and well-educated even more than the current system.

That said, getting rid of the SATs will undoubtedly produce more black and brown faces at the University of California. But does that good thing make up for other injustices? What will happen to Asians? Or to the modern equivalent of Robert Burns’s “lads o’ parts”: bright children who do not enjoy the advantage of belonging to ethnic minorities or going to suburban schools? And what about UC’s academic reputation? It can hardly benefit a university to cut itself off from a potential stream of talent.

It is hard to suppress the worry that Mr Atkinson is getting rid of SATs not because they are uninformative but because they are all too informative: they consistently give whites and Asians higher scores than blacks and Latinos. It is foolish to deal with unpalatable information by shooting the messenger. The right way to deal with it is to work like fury to change California’s schools. And that surely means more testing, not less.

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“All the news that’s fit to print”

Feb 22nd 2001 | NEW YORK
From The Economist print edition

FOR many people the *New York Times* is the greatest newspaper anywhere. But there has long been a small pool of conservative dissenters in its home town. For them, the *Times* is left-wing, inaccurate, devoid of humour, and, worst of all, unopposed (they never seem to count the *Wall Street Journal*, which, to be fair, doesn’t write that much about the Big Apple). Now these accusations are being made, daily, and often wittily, by a free web-based publication.

The publisher, reporting staff and editor of *smartertimes.com* is Ira Stoll, a 28-year-old former managing editor of *Forward*, a Jewish weekly. At 6 o’clock every morning he picks up a copy of the *Times* at a Brooklyn news-stand and, within four hours, unleashes an invariably scathing report on something he thinks either ludicrous or wrong.

Categories on the website range from the pedantic—“New York, lack of basic familiarity with” (noting flagrant geographic errors) and “Misspelling of names” (including that of the Sulzberger family, which controls the *Times*)—to weightier topics such as taxes and immigration. Most of the time, Mr Stoll is on the look-out for left-wing bias masked as objectivity. He is particularly tough on the citation of allegedly impartial “experts” to back up predictable *Times* conclusions—that the poor are getting poorer, private education is bad, welfare reform has failed, public housing is vital, and Republicans and policemen are callous, racist or mentally challenged.

Occasionally, Mr Stoll’s pieces precede (or perhaps cause) a correction. He was, for instance, the first to spot that the *Times* had attacked John Ashcroft, the conservative attorney-general, with a truncated and misleading quotation lifted from another newspaper. More often the sins are of leftish omission. Last weekend’s ode to the joys of travelling in Cuba, he points out, avoided “any mention of the country’s horrible human-rights record”.

Like other zealots, Mr Stoll sometimes asks too much. Even, erm, weekly newspapers occasionally get things wrong; it would be surprising if a daily as big as the *Times* never did. And Mr Stoll’s bias, though overt, can get a little tedious. This week he nicely skewered an absurdly solemn *Times* piece about a plan in Connecticut to stop high schools starting work before 8.30am, because teenagers do “not physiologically wake up”, for not even wondering whether it might be a good thing for the little dears to go to bed earlier. But did Mr Stoll really need to add a carp about those tired teenagers having sex “with the assistance of taxpayer-provided free contraceptives”?

All the same, Mr Stoll seems to have struck a nerve. In only seven months, with no marketing, he has developed a subscriber list for a daily e-mail of almost 2,000 people (including, inevitably, Newt Gingrich). And the *Times* seems to be taking some notice. Three of its journalists have already taken him out for lunch.

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The economy

Hard luck, hard landing?

Feb 22nd 2001 | NEW YORK AND WASHINGTON, DC
From The Economist print edition

America has been promised a soft landing. Consider an alternative

"DO YOU think we are going to have a recession?" The questioner is a stranger, clad in an elegant fur coat, in a lift on Fifth Avenue in Manhattan. It is the question all Americans are asking. When the question was put in Congress last week to Alan Greenspan, the chairman of the Federal Reserve, he replied "No". Unfortunately, he said the same in September 1990, when it is now clear that a recession had already started.

According to the latest survey by *Blue Chip Economic Indicators*, 95% of economists agree with Mr Greenspan: America is not sliding into recession. But this is less reassuring than it sounds. Economists rarely succeed in predicting recessions. Economic models are not much help for spotting turning-points in the cycle. And many economists are reluctant to stick their necks out.

A disturbing number of leading economists in America have privately admitted to *The Economist* that they are more worried about a recession (defined as at least two quarters of falling GDP) than their official forecast might suggest. Even Stephen Roach, a notorious bear at Morgan Stanley, is predicting only two quarters of shrinking output, and average growth of 0.9% for 2001 as a whole. That would make it the mildest recession in history. But, as Mr Roach admits, it is hard to forecast recession, let alone deep recession, when your firm sells equities.

Certainly, the trend is gloomy. The average prediction for growth in 2001 in *The Economist*'s poll of forecasters has fallen from 3.5% in October to 1.8% early this month. Actual GDP growth slowed from 5% in early 2000 to 1.4% in the fourth quarter. Many economists expect growth of barely 1% in the first half of this year. Even without a recession, that would feel like a bumpy landing.

So far, the main driver of the downturn has been the business sector. As profits have been squeezed and weaker sales have caused inventories to pile up, firms have started to trim their investment and production. Mr Greenspan is keen to portray the current slowdown as mild and short-lived. Firms have already started to slim their excess stocks, he argues, so the usual inventory correction should take place more rapidly than usual, allowing the economy to bounce back more swiftly.

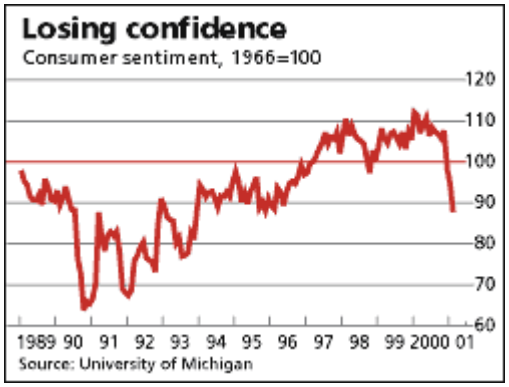
The behaviour of consumer and corporate spending will determine whether this happens without a recession. John Makin, an economist at the American Enterprise Institute, believes there is a serious overhang of capital investment. Even without a recession, capacity utilisation in manufacturing has fallen to its lowest level since 1992. With excess capacity and falling profits, firms are likely to cut their investment plans this year.

The most useful economic indicator to watch is consumer confidence. Mr Greenspan has likened the sudden break in confidence before past recessions to "water backing up against a dam that is finally breached." It is difficult for monetary policy to deal with such a sharp break in confidence. The University of Michigan's consumer-confidence index remains above its level in previous recessions. But it has just seen its biggest three-month fall since the start of the last recession (see chart). And, as Bill Dudley, an economist at Goldman Sachs, argues, the rate of change in confidence may have a bigger impact on growth in spending than the absolute level.

Last year, households' saving turned negative for the first time since the 1930s, as people spent their increased stockmarket wealth. Debts also climbed to record levels in relation to income. If share prices continue to weaken from their still over-valued levels (see article), that "wealth effect" will surely go into reverse. If

nervous consumers suddenly decide to save more and spend less, a serious recession could follow.

What would really cause consumer confidence to crumble is big job lay-offs. So far unemployment has barely increased. But if firms in the "just-in-time" economy reduce inventories and capital spending more swiftly than in the past, as Mr Greenspan has argued, then why might they not also cut jobs rapidly? A spate of recent corporate lay-offs from the likes of Dell, DaimlerChrysler and Sara Lee augur poorly.



Liquid refreshment

Most economists and investors still have faith in the ability of the Fed to prevent a recession through interest-rate cuts. With inflation well under control, the Fed has plenty of room to cut interest rates. At least, that was the argument before the poor inflation figures for January were published. Consumer prices rose by 0.6% in the month, twice as much as expected, to give a 12-month increase of 3.7%; the 12-month rate of producer-price inflation jumped to 4.8%, its highest for ten years. This may be just a blip, caused by higher energy prices, but the Fed's room for aggressive easing may be shrinking.

And even if rates are cut by another half point at the Fed's next policy meeting on March 20th, there is no guarantee of how quickly this will work. Monetary policy always operates with long lags, but with record levels of debt and excess capacity, lower interest rates may be even less effective than usual in spurring new spending. Easier monetary policy can certainly shorten recession, but, given America's financial and economic imbalances, it may be too late to prevent one altogether.

All this leaves one final, predictable reason for optimism. Mr Dudley points out that investors and consumers (presumably like the woman in the fur coat) still believe Mr Greenspan can avert recession; that helps to underpin confidence. Undeniable. Yet, if a recession were to occur, the shock to confidence could be severe—like discovering that the emperor had no clothes after all.

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California's Republicans

They'll be back

Feb 22nd 2001 | SACRAMENTO
From The Economist print edition

HOW sweet it is to be a Republican these days: George Bush is in the White House; Saddam Hussein is being justly bombed; Alan Greenspan supports a whopping tax cut; Bill Clinton is taking a good kicking over the Marc Rich pardon. All is well with the world. Unless, that is, you are a Republican in California.

For these unhappy souls, November's election brought not victory but further humiliation—a 12-point win for Al Gore, the easy re-election of Dianne Feinstein to a Senate seat so safe that the Republicans barely campaigned for their candidate, and four gains for the Democrats in the state's House delegation, giving them a 12-seat advantage, which will probably rise to 16 after the districts have been redrawn by Governor Gray Davis and his fellow Democrats, who control both houses of the state legislature. Only one Republican, Bill Jones, the secretary of state, who did not have to run for re-election last year, hangs on in a statewide office.

If there is any spot of cheer for the Republicans, who gather in Sacramento this weekend for their annual state convention, it is that the Democrats are bearing the brunt of California's energy disaster. But even this has not helped the Republicans so far; voters seem to blame them for deregulating the industry, the alleged cause of the trouble.

All this focuses attention on the main business of the convention—electing a new Republican Party chairman. Normally this would be a formality, with the vice-chairman, Shawn Steel, a lawyer, stepping into the post. This time, however, there is a challenger: Brooks Firestone, a rich vintner who has previously served in the assembly. Both are centrists, though Mr Firestone will win more liberal votes and Mr Steel more votes of the religious right.

Since the end of the cold war, with its unifying rigour, California's Republicans have fought with each other as much as with Democrats. Moral conservatives on the right of the party have savaged pro-abortion-rights candidates in primary battles, sometimes even resorting to lawsuits. The battle has cost the Republicans support among two large groups of voters they badly need: Latinos and working women.

California's Latinos tend to be both entrepreneurial and socially conservative, which also makes them anti-abortion. Around 40% voted for Ronald Reagan in his presidential races. They should be good Republican material. But in 1994 the Republican governor, Pete Wilson, campaigned hard in support of Proposition 187, a ballot initiative to prevent illegal immigrants from receiving state aid; and Latinos disliked it.

Women have been put off by a series of Republican initiatives that reduced state funding for things such as child care for working mothers; they also remain nervous about the national Republican Party's opposition to abortion. Democratic moderates, such as Mr Clinton and Mr Davis, have claimed the political middle ground, leaving local Republicans looking more and more like the party of white, conservative men (hardly a growing demographic group).

This need not last forever. In Texas, George Bush attracted the votes of both Latinos and women. The libertarian spirit that thrives in Silicon Valley finds echoes in the Republican commitment to smaller government and free markets. Opinion polls suggest that Californians agree with many Republican ideas so long as they are not identified as being Republican; once they are, voters say they disagree with them.

Removing that suspicion will take time, and a smoother party machine. Both the candidates for the chairmanship favour appointing a full-time executive secretary, probably with a salary (as the Democrats have done). Most of all, the Republicans need an eloquent, well-known leader.

One man who seemed suitable was a former insurance commissioner, Charles Quackenbush; but he was run out of office last year after revelations that he was a little too close financially to the industry he was supposed to regulate. Mr Jones, the secretary of state, may have improved his chances by his withering attacks on Governor Davis's handling of the power crisis. But, unsurprisingly, the Republicans have been casting their net well beyond Sacramento.

Tim Draper, a Silicon Valley venture capitalist, has muddied his reputation on the right with a disastrous attempt to sponsor a school-vouchers initiative last year. William Simon, the son of a former treasury secretary, also has money, but lacks experience. The perennial favourite of the faithful is Arnold Schwarzenegger. The idea of the muscular star following Ronald Reagan from Hollywood to Sacramento is taken seriously by Democrats. Indeed, Republicans whisper that their omnipotent opponents are behind a string of less-than-kind profiles of the erstwhile body-builder. But the real danger is that the Terminator could seem all too appropriate. Like the California Republicans, he has not had a real hit since the mid-1990s.

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Motor racing

Pride of the South

Feb 22nd 2001 | ST LOUIS
From The Economist print edition

DALE EARNHARDT was born while stock-car racing was still in its infancy. Back in 1951, the National Association for Stock Car Automobile Racing (or NASCAR) was only three years old. Its drivers came with real or imagined claims to have run moonshine whiskey down back-roads just in front of the police. The cars came off the showroom floor for the weekend. But when Mr Earnhardt died last weekend, in a crash at the Daytona 500, he left behind one of the most successful sports in the country, and a talisman of the new South.

His father Ralph was a racing man who built engines in the backyard of his North Carolina home and died when Dale Earnhardt was 17. By then the boy had dropped out of school to earn his food with prize money on the rural race circuits of the South. Formula One was for Europeans. Sports cars were for the rich. But stock cars were southern, a home-grown sport of local boys who would paint a Confederate flag on the sheet-metal bodies. That southern touch raised hackles; other Americans mocked the sport's good ole boys.

AP

King of the tracks

But, as the South began to change, stock-car racing grew in popularity. A turning-point came in 1977, two years after Mr Earnhardt moved to the major league (winning a little over $2,000 in his first race), when Jimmy Carter, a Georgian in the White House, gave stock cars priority over presidential golf. Television began to take it seriously. As money and technology were pumped into the sport, the central illusion of stock-car racing—that the car in your driveway might go zipping round a race-track—began to capture hearts. You might never drive an Indianapolis car, but everybody knew how to handle a Ford or a Chevy.

No overnight sensation, Mr Earnhardt won the first of his seven NASCAR championships in 1980. His driving style got him called the Intimidator. His black car, the figure 3 painted on the side, became as famous as its driver. The fans loved him, and his followers could not buy enough figure-3 T-shirts or models of his car.

With the decline of boxing, labour trouble in major-league baseball and the accusation that professional athletes were overpaid, NASCAR increased its audience fivefold in the 1990s. From the South it expanded its activities first into New York and New Hampshire, and then into the west and the mid-west. In 2001 it will hold races in Illinois and Kansas for the first time. It also discovered merchandising; its earnings have risen spectacularly in the past decade.

NASCAR has a peculiarity: the biggest race of its season is the first one, last weekend's Daytona 500. Mr Earnhardt had won the race for the first time in 1998, after 20 attempts. Two weeks ago he had finished a respectable third in the sports-car endurance race, the 24 Hours of Daytona, his first foray into that style of racing. This time he owned three cars in the Daytona 500: one driven by himself, one by his son Dale junior, and the other by Michael Waltrip, who had not won a race in more than 400 attempts.

The lead kept changing hands, a clump of cars clinging together at the front. Then, after a 17-car pile-up in which nobody was seriously injured, Mr Waltrip took the lead. Young Dale and his father followed, trying to protect his lead from the other cars trying to overtake him. The scorer waved the white flag for the last lap.

As the crowd rose to its feet, ready to cheer Mr Waltrip's improbable $1.3m-prize victory, Mr Earnhardt raced into the last corner of the track, lost control and hit the track wall straight on at about 190mph. At

first nobody thought it was very serious. In fact, Mr Earnhardt had been killed instantly, by a blow to the base of his skull. The widespread grief (his death has been compared to those of Elvis Presley and Princess Diana) has been accompanied by some predictable questions. Might an energy-absorbing wall, or a better head-restraint system, have saved him? Nobody knows, but everybody is sure that right up to the last seconds of his life Dale Earnhardt always did exactly what he wanted to do.

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Tackling the chaos in Brazil's prisons

Feb 22nd 2001 | SAO PAULO
From The Economist print edition

Prison gangs are a symptom, not a cause, of the appalling conditions in the country's jails

AP

AT LEAST 20 prisoners killed—three of them beheaded—and about 80 people hurt, including a child hostage horribly burned by an exploding tear-gas capsule. This was the toll of the simultaneous uprising by around 28,000 prisoners in 29 jails across Sao Paulo state, starting on February 18th. Two days later the authorities had regained control, but they remained rattled.

The statewide rebellion was organised by the First Command of the Capital (PCC), one of several gangs that infest the jails. Two days earlier, the authorities had tried to break the gang's grip on Carandiru jail in Sao Paulo city—Latin America's largest prison—by transferring ten of its leaders. This, in turn, came a few days after a battle for control of the jail's drugs trade, in which five suspected members of a rival gang were killed. At least this time there was no repeat of the bloodshed in 1992, when police invaded Carandiru and massacred 111 rioting prisoners.

The timing of the uprising took the authorities by surprise: it happened during Sunday visiting, allowing the ringleaders to hold thousands of inmates' wives and children hostage. Clearly the authorities underestimated the gang's power, and not for the first time. The gang is thought to have formed in 1993 in a top-security unit in the town of Taubate, and to have spread across the state, organising armed robberies and drug-dealing outside the prisons as well as trafficking and protection rackets within them.

At first, the authorities refused to believe the gang existed; later, they publicly denied its existence while trying to contain it. In 1998 they secretly transferred six PCC leaders from Taubate to jails in the next-door state of Parana. But other gangsters, in Carandiru, rose to take their places. So last year, after admitting the gang's existence, the authorities had another go at breaking it up by shifting the new leaders from Carandiru to Taubate. The leaders reacted by fomenting a riot in which the top-security unit was wrecked and nine prisoners died. They were moved again—some back to Carandiru, where they stayed until being moved again this month, triggering the latest rebellion.

The authorities' failure shows that merely isolating the PCC's current leaders will not do the trick. Jose Vicente da Silva, a former police chief now at the Fernand Braudel Institute, a think-tank, says the gang is "an organisation that is bigger than its leaders", and "if you take them away there are always other leaders who will take their place." Or other gangs may take over the prisons, such as the Satanic Sect and the Democratic Committee of Liberty, which are constantly trying to displace the PCC.

The gangs, says Mr Silva, are simply occupying the space left vacant by the legitimate authorities. Prison staff fail, through corruption and incompetence, to impose any sort of code of conduct on the inmates; the gangs do so, by threats. The authorities fail to offer prisoners protection from being attacked by others; joining the gang offers this protection. And the authorities do nothing to improve the appalling conditions in the prisons, until protests organised by the gangs force them to.

So rather than just tackling the gangs, Sao Paulo's state government needs to treat the underlying causes: the lack of training and supervision of prison staff, and the overcrowding and poor facilities in jails. The authorities are now promising to introduce metal-detectors and to conduct thorough searches of visitors who might be bringing in arms, drugs and the mobile phones that are used to co-ordinate rebellions. But corruption sometimes goes up to the top level of prison management; and although the state government is busy building new jails, the number of prisoners has been growing faster, forcing the

government to drop plans to shut Carandiru.

Prisons across much of Brazil suffer the same problems, and they are getting worse. Since around 220,000 prisoners are squeezed into jails meant to hold 145,000, riots, gang warfare and mass escapes happen almost daily. More non-custodial sentences, such as community work for non-violent offenders, might help matters; the federal government reckons the prison population could be cut by a fifth thereby. But public opinion is against it, and most Brazilian cities are not organised to operate such schemes.

The federal government argues that prisons are the states' responsibility. It is doing its bit, it says, by offering them prison-building grants: in the wake of this week's rebellion, it gave Sao Paulo 67m *reais* ($33m). But the funds fall far short of what is needed. In truth, there is no political will to tackle the issue. The public tends to feel that if Brazil's prisons are hell, so much the better. In fact, the jails serve as headquarters and training centres for the violent crime that afflicts the streets. While this week's events are still fresh in the public mind, Brazil's leaders should try to point that out.

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Argentina

Unloved boffins

Feb 22nd 2001 | BUENOS AIRES
From The Economist print edition

SCIENCE is important to Argentina. In a little over 50 years it has produced three Nobel prizewinners, good going for a second-world country of 37m people. Last year, to the government's delight, it even managed to sell a locally designed nuclear reactor to Australia. Yet its scientists reckon they are unappreciated.

According to Roberto Perazzo, a physics professor at the University of Buenos Aires (UBA), one of the country's main research centres, Argentines "love success, whether it's Maradona, a racing-car driver or a trapeze artist". They therefore like their scientists to win prizes; but they do not believe they can contribute much to the improvement of society.

Mr Perazzo points to the evidence. The National Atomic Energy Commission (CNEA) is close to collapse; its library is out of date; research grants are down 30%; the staff has been slashed by three voluntary retirement plans, and the government has ordered a freeze on new appointments. Even the scientists who prepared the fuel for the new Australian reactor have departed.

Thin funding lies at the base of this. Argentina dedicates a mere 0.35% of its GDP to science and technology. Its researchers look enviously at Brazil, which spends over twice that proportion and almost five times as much in real terms. Last year Brazil released, to world acclaim, the genomic sequencing of a bacterium that attacks oranges.

On February 19th Dante Caputo, the science and technology secretary, suddenly resigned. He had been claiming stoutly that the government, despite its fiscal straitjacket, meant to increase science funding by 5.4% this year to around $700m, and would make similar annual increases in the future. He also wanted to channel research funds through the universities, which have not controlled scientific research since it was removed from their remit by a military government in junta days. Many scientists liked Mr Caputo's plan in principle, but worried that the universities would prove too disorganised to run things properly. They also felt they had not been consulted. As he left, Mr Caputo lamented that neither the government nor scientists had supported him.

History has made Argentina's academics easy to alarm or offend. The 1970s military regimes' distrust of intellectuals meant that the repression of "subversive literature" extended even to mathematics textbooks. Even in the relatively enlightened 1990s, Domingo Cavallo, an economy minister of deserved fame in his own field, famously told scientists to "go wash dishes". As a result, the country has haemorrhaged scientists for decades, mainly to the United States and Europe, but also to Brazil, whose rulers, even in its own years of military rule, took a kinder view of their work.

The flow was interrupted briefly with the victory in 1999 of the Alliance government, whose manifesto included an apparent commitment to raise science spending to 1% of GDP. Mr Caputo said it promised only to "tend towards" that figure, and that private investment, currently around half the level of state spending, must make up a big part of it. But many company research budgets have fallen, particularly after the wave of privatisations during the 1990s, with new owners often closing labs and shifting research work abroad.

Enrique Oteiza, a social-sciences professor at UBA, points out a worrying trend. In previous decades, the scientist-emigrants were mainly senior figures fleeing political turmoil. Since the 1990s, most have been young researchers who cannot find posts after finishing their postgraduate studies. Over the past decade, largely in response to pressure from international financial institutions, the number of local research posts has been cut by almost half. It is reckoned that around a third of Argentine researchers are now working abroad; among them, maybe, a future Nobel-winner or two.

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Bolivia

People power

Feb 22nd 2001 | LA PAZ
From The Economist print edition

FEBRUARY 14th should have been a big day for Bolivia. President Hugo Banzer Suarez, anxious to redeem his government's poor performance by ending his presidency on a democratic note, read out in Congress a 50-point proposal for constitutional reform. As he did so, however, sceptical deputies from the largest opposition party, the Movimiento Nacionalista Revolucionario (MNR), silently held up placards demanding clean elections and proclaiming "No to fraud".

Reuters

Banzer gets in first

On paper, Mr Banzer's reforms look impressive. They would allow lobbying groups and individuals to fight elections even when they have no political party behind them, as long as they can prove that 5% of the voting population supports them. They would also allow referendums; remove appointments to the regional electoral courts, which oversee voting, from the grip of local politicians and give them instead to the national electoral court; and permit the Supreme Court, not Congress, to decide if parliamentary immunity from prosecution should be lifted for deputies accused of serious crimes.

So why the discontent? Quite simply, because the opposition does not trust Mr Banzer's motives. At least in part, his reforms are a response to the rising popularity of political forces outside the established parties. Ever since the government lost ground in the violent civil protests of last year, new political movements—formed to lobby for water rights, more power for indigenous Indians, or stronger measures against corruption—have increasingly challenged it. Many people want a broad referendum on how the country should be governed, and there are even demands for a constituent assembly. The government's evident response is to try to draw up a new political and social contract on its own terms, before its opponents can get round to doing so.

Opposition politicians also suspect that Mr Banzer's reforming instincts are skin-deep. They had asked, for example, for the new electoral-court system to be implemented before any new members were appointed; the government, ignoring their objections, went ahead and appointed 41 new court members, mostly loyal supporters of the governing coalition. Gonzalo Sanchez de Lozada, an ex-president who is now the leader of the MNR, believes the ground is being prepared for electoral fraud. Though he came to power democratically in 1997, Mr Banzer after all was Bolivia's unelected boss, thanks to a military coup, from 1971 to 1978.

The president's proposals are also remarkably short on detail. If he is really interested in seeing citizens play more part in government, he will have to provide more specifics. There will doubtless be more of the long consultations that have become a hallmark of his presidency. Good for consensus, say his supporters; time-buying to avoid further unrest, say his critics.

The unenviable job of implementing the measures has been handed to Luis Vasquez, the justice minister, who wrote many of them. "Nobody should think a debate about the constitution is going to resolve the country's problems," says he, defensively.

Many of the less radical measures, like those strengthening the power of independent bodies such as the national electoral court and the Supreme Court, should be beneficial. And, to look on the bright side, Bolivia is no longer dominated by ideological battles of the 1970s. Since democracy returned in 1982, power has passed peacefully from one elected government to the next.

Nonetheless, Bolivians remain suspicious. Getting from the present pessimism and distrust of political parties to a more optimistic and secure vision of the future is the real challenge of constitutional reform.

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Guatemala

The boggy road to peace

Feb 22nd 2001 | GUATEMALA CITY
From The Economist print edition

It is not at all clear that the army is curbed

EVER since Alfonso Portillo was sworn in as president in January last year, people have been wondering who is really in charge in Guatemala. Mr Portillo, a populist once close to the left-wing guerrillas who fought for 36 years, until December 1996, in the country's civil war, won the top job on the ticket of the Guatemalan Republican Front (FRG). That party is led by Efrain Rios Montt, one of the war's bloodiest military dictators. With the cabinet divided evenly between General Rios Montt's men and the president's, there has been a predictable power struggle, which neither man is winning. Guatemala, however, is losing.

The peace accords, a complex slew of measures designed to transform Guatemala from a warring, soldier-run country into a peaceful civilian one, are unravelling. The original deadline for their full implementation, December 2000, has been set back to 2004, and even that now looks unrealistic.

Clipping the army's wings was central to the peace deal. The previous government had already cut the army and created a civilian police force. In his campaign, Mr Portillo promised to abolish immediately the army's powerful presidential-security wing, the EMP, and appoint a civilian defence minister. He also promised swift justice for the killers of Juan Gerardi, a Catholic bishop who had led a church truth commission investigating the civil war. Three EMP members are among those charged with murdering him in 1998, two days after the commission reported that the army, rather than the guerrillas, was responsible for most of the war's 200,000 deaths and many other atrocities.

Now the president's promises are looking hollow. The EMP is still there; in fact, it absorbed the 70 civilian agents who had been trained to take over its job. Last month the president named as his new defence minister Eduardo Arevalo, a retired general whom some human-rights groups accuse of involvement in a war massacre. The Gerardi trial, supposed to start last week after many delays, has been postponed again.

Since the police force is still small, underfunded and poorly trained, the FRG last year passed a law allowing the armed forces to take on crime-fighting once more, a reversal of what the peace accords demanded. This month, as if to show off the army's new-found power, heavily-armed soldiers began patrolling the streets alongside the police.

Another big setback has been the failure to raise tax revenue from its meagre 9% of GDP to a planned 12% by 2002, to pay for various projects and social programmes that might consolidate peace. Last summer the government made an extraordinary fiscal pact with businessmen and social groups, but then backed out of it. Anai Herrera of ASIES, an economic think-tank, estimates that tax revenue will reach little more than 10% of GDP by 2002.

This may not be all General Rios Montt's doing. Other former officers, such as General Arevalo, who are no friends of his but are close to Mr Portillo, may be working to protect the army. And the president himself is known to make unrealistic promises.

But the tension between him and the FRG leader is apparent. Mr Portillo has already vetoed five bills; his predecessor, Alvaro Arzu, blocked none in four years. Congress slashed this year's budgets for several ministries staffed by Portillo people: most notably the Strategic Analysis Ministry run by Edgar Gutierrez, a former human-rights activist, whose job is to make government more accountable. At the same time, the FRG is losing no chance to expose government scandals. This month it emerged that a 145m-quetzal ($18.6m) surplus from the president's budget, which should have gone to the Finance Ministry, was instead deposited in a bank owned by Francisco Alvarado, a friend of Mr Portillo's.

General Rios Montt's attempts to trip up the president may yet inspire a backlash. He and 23 other FRG deputies have been accused of altering a law on alcohol taxes after it was passed by Congress. Prosecutors are trying to strip them of immunity, so that they can be brought to trial. If that effort succeeds, General Rios Montt will be out of power. And if it fails, a human-rights group, CALDH, is standing by to bring another case against him—this time for genocide.

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Australia's populist bites back

Feb 22nd 2001 | SYDNEY
From The Economist print edition

Pauline Hanson's comeback reveals the power of the discontented

MOST Australians thought they had heard the last of Pauline Hanson, the gritty-voiced political populist who sprang to prominence two years ago when her party, One Nation, started capturing seats. She opposed Asian immigration, attacked welfare for aborigines, demanded an end to foreign aid and called for a fair go for "ordinary Australians". Then it all came apart. Mrs Hanson fell out with her party's inner circle, and lost her own seat in the federal Parliament at the 1998 election. Australia's chattering classes, and its main political parties, breathed a collective sigh of relief. How wrong they were. At two state elections this month, Mrs Hanson stunned everyone by reappearing, fielding candidates and causing havoc with the results. She has ignited Australia's political landscape once again, and cast a pall over the future of John Howard, the prime minister, who himself must face the voters later this year.

EPA

Hanson's best knee forward

At a state election in Western Australia on February 10th, the opposition Labor Party defied predictions and unseated the conservative coalition government of the Liberal and National parties. There was a swing of almost 8% against the conservative parties. Labor won with the help of second votes from One Nation candidates under Australia's preferential voting system; in some rural seats, One Nation captured almost one-fifth of the vote. A week later in Queensland, that state's Labor Party swept back to power in a landslide. One Nation won only three seats compared with 11 at the previous election; but it took votes from the conservative parties. Labor is likely to hold 66 of the 89 seats in the Queensland parliament, leaving the National Party with 12 and the Liberals with just three.

Mrs Hanson, basking in media attention, crowed that the results showed "people are fed up with Johnny Howard". The prime minister, who leads the federal Liberal Party, retorted defensively that the results had more to do with state issues than national ones. But it is hard not to see both state polls as reflecting widespread volatility working against the coalition, with Mrs Hanson acting as a catalyst for discontented people on outback farms, and in poor country towns and fringe suburbs, who feel they have been left behind by the country's economic boom and by its cultural and social transformations centred in the big cities.

It so happens that the political upheavals come as Australians are marking the centenary of the country's formation, when its six former British colonies created a federation in January 1901. Mr Howard visualised coasting to victory for a third term in the federal election due by November, buoyed partly by a sense of national unity after a year of celebrations over Australia's achievements. But the vision is turning into a political nightmare. If the latest national mood is any guide, Australians seem to be more fractured than ever over the questions that drew them together 100 years ago: their economic well-being and their place in the world.

Mr Howard has himself partly to blame for this. Over the past 20 years, Australia's two main political groupings, Labor and Liberal-National, have embarked on a bipartisan process of change. On the economic front, it involved abolishing protectionism and exposing Australia to the competition of a global economy. Culturally, it saw the notorious "white Australia" policy replaced by multiculturalism, and a bid to right past wrongs to Australia's indigenous people.

When Mrs Hanson first hit the headlines five years ago with her maiden speech to Parliament, in which she complained that Australia was being "swamped by Asians", she hit a nerve with those Australians who felt uncomfortable with the pace of change. She also voiced a brand of xenophobia and racial

intolerance that existed at the time of federation, when Australia saw itself as a white British country in the Pacific coveted by Asian hordes.

Donald Horne, author of “The Lucky Country”, believes the divisions that Mrs Hanson has unleashed reflect a sense of loss among some Australians over a once guaranteed share of the national wealth, and a return to bits of the old faith: white Australia and the British connection. “If you judge it by its immediate effects,” says Mr Horne, “Pauline Hanson’s speech in 1996 may have been the most effective maiden speech ever made in the Australian parliament.”

Mr Howard’s initial response to Mrs Hanson then was silence. Partly he hoped her star would quickly fizzle out. But she also echoed his own intolerance of political correctness and his empathy with the anxieties of the “typical Aussie battler” who sees the old social fabric changing. In their own ways, both she and he see the country divided into what Mr Horne describes as two main classes: mainstream Australia and minority interests. On social issues, Mr Howard’s government has moved further right, embracing a brand of what looks like “soft Hansonism”. It has cut back immigration and abandoned Mr Howard’s former pledge to achieve “true reconciliation” with Australia’s aborigines by the centenary of federation.

Yet Mr Howard’s flirting with Mrs Hanson’s ideas as a means of accommodating the politically disenchanted seems to have backfired. At a federation ceremony on January 1st in Centennial Park, Sydney, the mainly urban audience booed the prime minister in protest at his refusal to offer a national apology to aborigines. The celebrations that he hoped to make a centrepiece of his prime ministership have not captured a popular wave of enthusiasm. Mr Howard’s critics say this is because there is little new to celebrate, as there would have been if Australia had begun its second century as a republic. The prime minister successfully campaigned in 1999 against a referendum that aimed to end the anomaly that Australia’s head of state is a monarch who lives in Britain. Thomas Keneally, an author and former chairman of the Australian Republican Movement, says, “A republic would have given federation a modern focus it doesn’t have. Instead, it’s like attending a birthday party in a vacuum.”

Where does the government go from here? Two opinion polls this month gave the Labor Party, headed by Kim Beazley, enough support to win a federal election in a landslide. As the *Australian*, a national newspaper, said this week, Mr Howard will need a miracle to survive the next election. In rural Australia, Mrs Hanson is having a field day exploiting discontent with the government’s market policies, which have hurt farmers and small business people. These include encouraging inter-state competition, which has wiped out many dairy farmers, and plans to sell the government’s remaining share of Telstra, the country’s biggest telecoms company, besides a new consumption tax and heavier fuel taxes.

Mrs Hanson means business. She wants to get back into the federal parliament. Her great threat to the Howard government is to split the conservative vote three ways. Already she has spooked the National Party, the junior partner in the coalition, whose members are talking of doing deals with One Nation on swapping preference votes to save their political skins.

If Mr Howard buckles and allows Liberal Party members to do similar deals, there would be a flight of moderate Liberal voters to Labor in disgust. Miracles have come Mr Howard’s way before in his 27-year political career; but the omens have rarely looked as forbidding as they do in this centenary year.

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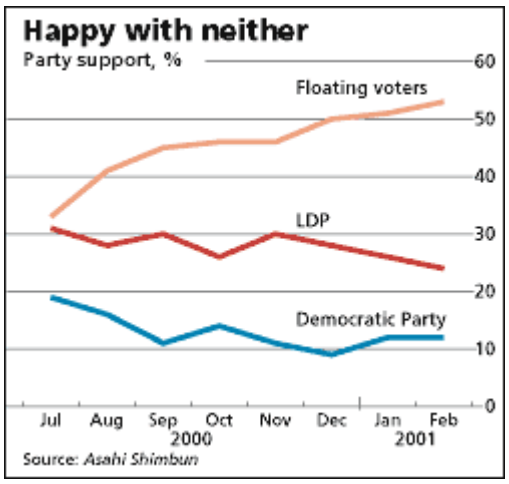
Japan

Being kind to Mr Mori

Feb 22nd 2001
From The Economist print edition

A weak opposition helps to keep the prime minister in power

A JAPANESE novelist, Ryu Murakami, talking to foreign journalists this week, sought to explain why the deeply unpopular prime minister, Yoshiro Mori, has survived for so long. He is like a drunken Japanese father who has fallen asleep, said Mr Murakami. When he wakes up he tells his family he is doing his best, then falls asleep again. He is ignorant and insensitive, but not vicious. So the Japanese "family has no choice but to accept him, with a wry smile, mixed with disgust."



For those less familiar with the workings of the larger Japanese family, Mr Mori's longevity does seem odd. An opinion poll this week by the *Asahi* newspaper suggested just 9% of voters support Mr Mori's cabinet. In the post-war years only the corrupt Noboru Takeshita, who was felled by scandal in 1989, ended up more unpopular.

Along with Mr Murakami's novelish view, there is the matter of politics. The main opposition leader, Yukio Hatoyama, has had many opportunities to boot out Mr Mori and his party, the Liberal Democrats (LDP). Yet no matter how many scandals, gaffes and blunders Mr Mori tosses its way, the opposition makes no progress. Indeed the fortunes of Mr Hatoyama's own party, the Democrats, are at least as miserable as the LDP's.

One reason is the bouffanted Mr Hatoyama himself. He comes from a famous political family. His grandfather was Japan's first prime minister after the second world war. His father served in the upper house. Yet the Hatoyama political stock is in decline. Few people see him as suitable for the top job. There is talk that, were there a snap general election, he might even lose his seat.

Mr Hatoyama has other personal failings. Grandfather and father were pillars of the LDP-dominated conservative political establishment. Hatoyama junior himself began his political career with the LDP, quitting the party in 1993 when it fell from power. Although now in opposition, he is associated with Japan's ruling elite, the same elite that has mismanaged the economy, failed to clean up the banks and amassed public debt of ¥660 trillion ($5.7 trillion). In national politics, Mr Hatoyama vows never to join hands with the LDP. As he admits, however, his party jumps into bed with the enemy in local elections. Understandably, voters see the Democrats as part of Japan's problem, not the way out. Many are turning their backs on mainstream politics altogether.

The Democrats' policy platform looks wobbly. They have strong ideas about shrinking the budget deficit. On other burning issues, such as telecoms deregulation and cleaning up the banks, they are vague. This is not surprising. The party contains a broad array of political forces, from free-market liberals to die-hard socialists. Mr Hatoyama recently threw his weight behind revision of Japan's war-renouncing constitution, only to be shouted down by the small, but noisy, group of pacifists that bedevils the party's foreign-policy plans.

With no shared ideology, the Democrats seem incapable of offering voters an uplifting alternative to conservative, bureaucrat-led rule in Japan, be it a variant of European socialism, American liberalism or even the much-sought third way. "Maybe we can do a mixture of Thatcherism and Blairism," Mr Hatoyama offers limply. In truth, the party only really agrees on the ill effects of the LDP's close relations with the construction industry. So the Democrats push for slashing public works, resulting in

bankruptcies among construction firms and millions more out of work; hardly the way to win votes.

Rejuvenation for the Democrats could come in several guises. One is a change at the top. It is not impossible for Mr Hatoyama to be replaced by his predecessor, the more charismatic Naoto Kan, who fell from grace in 1999 following revelations of an extramarital affair. Mr Kan's political roots in the citizens' movements of the 1970s would enable him to tap into the growing anti-establishment mood among voters.

More intriguing is the suggestion that the LDP might soon split, triggering a wider political realignment that would eventually offer voters a genuine choice. A catalyst might be Mr Mori himself. His refusal to resign is putting obvious strains on his coalition government. The LDP's policy chief, Shizuka Kamei, a close supporter of Mr Mori, has a particular reason for wanting him not to quit: the Tokyo prosecutors' special-investigations department has a fat file on Mr Kamei. The clearest fault line in the LDP runs between the Mori-Kamei camp and that of Ryutaro Hashimoto, a former prime minister, which is becoming more and more agitated about Mr Mori's unpopularity as the summer's upper-house elections draw nearer.

There are other ways in which Japanese politics could be reshaped. Some politicians call for a grand coalition. Others want parties to divide along generational lines, with younger politicians from the Democrats and the LDP uniting under some sort of "progressive" banner. But voters who have waited since 1993 for politicians to make up their minds, are losing patience. It can happen in the closest of families.

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Philippines

Less bravado, more results

Feb 22nd 2001 | MANILA
From The Economist print edition

PRESIDENT GLORIA ARROYO announced a unilateral ceasefire with the Philippines' main Muslim separatist guerrilla group on February 20th, as she set about repairing the damage that her predecessor, Joseph Estrada, had done to the country's already shaky reputation for peace and stability. The army is suspending "offensive military operations" against the Moro Islamic Liberation Front (MILF), which seeks independence for the Muslim minority in the south of this mainly Christian country.

Mrs Arroyo hopes for the resumption of peace talks. The MILF did not respond immediately, but it had previously expressed a willingness to return to the negotiating table. Mrs Arroyo is also trying to revive peace talks with communist guerrillas, who operate across the country. She has made overtures to the main communist group, the National Democratic Front (NDF), and its initial response was said to be encouraging.

Her policy towards insurgent movements is sharply different from Mr Estrada's. Before he stepped aside in the face of a popular uprising in January, Mr Estrada presided over the rekindling of war against both the Muslim separatists and the communists. More than three years of efforts to establish peace with the MILF collapsed last year, when the armed forces drove the guerrillas from their main bases. That gung-ho approach was seen as an effort to distract public attention from growing accusations that his administration was corrupt.The communists had broken off peace talks with the government in 1999, after the Philippines did a deal with the United States to revive the two countries' mutual-defence treaty. But the negotiations were also a casualty of Mr Estrada's wish to preserve his reputation as a tough guy of the kind he played in films.

In returning to the peacemaking policy of Mr Estrada's predecessor as president, Fidel Ramos, Mrs Arroyo aims to persuade the MILF to accept a degree of autonomy for Muslims, instead of independence; and to persuade the NDF to abandon its fantasy that it is a revolutionary government with equal status to her own. But the measure of success will not be final peace agreements, which could be years away. The establishment of effective ceasefires and the resumption of negotiations with both groups will be sufficient to restore an air of stability. This, the government hopes, will allow the kind of economic development that will undermine the attraction of Muslim independence or communist revolution.

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Thailand

Forget the past

Feb 22nd 2001 | BANGKOK
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HAVING grown bored with his lucrative telecoms empire, Thaksin Shinawatra set to work this week running his latest acquisition, Thailand. The new prime minister convened his first cabinet meeting on February 19th, showing the same combination of boardroom efficiency and suspect alliances that gained so much attention during his election campaign. He unveiled, to the awe of local journalists, an upgraded conference room that includes online laptop computers for each minister. Cabinet meetings will be streamlined, Mr Thaksin promised, and brought into the digital era. But while his new conference table spoke of modern government, the faces arrayed around it suggested an all too familiar approach.

AP

Thaksin finds politics more fun than telecoms

Even Mr Thaksin found it difficult to defend the new team. He will not be held accountable, he said, for his ministers' past misdeeds, but will concentrate only on their performance from now on. Given some of his choices, however, it is indeed the future that critics are worried about. Two groups of new ministers have drawn most of the attention. One group represents powerful business interests. Adisai Potharamik, who like Mr Thaksin is a wealthy telecoms executive, has been given the commerce ministry. The new deputy communications minister, Pracha Maleenont, is a media tycoon with a lucrative television concession. Since Mr Thaksin, too, has important stakes in both sectors, and will soon face big decisions on liberalisation and regulation, these choices raised some eyebrows.

Mr Thaksin is accused of choosing a second group of ministers largely for their blind loyalty, at the expense of competence. The new finance minister, Somkid Jatusripitak, is an academic and consultant with a background in marketing but little in finance. Both he and the new interior minister, Purachai Piumsombun, helped found Mr Thaksin's Thais Love Thais party two years ago.

Mr Thaksin has shown signs of a severe autocratic bent, and as a businessman had little patience for bureaucracy or dissent. His opponents say that his reliance on yes-men, combined with the business interests in his government, have confirmed their suspicions. The *Nation*, one of Thailand's most independent-minded newspapers, gave the new team a C-plus.

Still, Chuan Leekpai's Democrats were keen on consensus and cleanliness, and Thai voters have just booted them out of office. They opted for Mr Thaksin largely because he promised to get things done, especially in four important areas. A national asset-management company to buy up bad loans from the banks is intended to get credit flowing again. The other three promises were aimed at ordinary Thai voters: a moratorium on farmers' debt repayments; a scheme to provide cheap health care; and an offer of 1m baht ($23,400) in development funds for each village. Mr Thaksin's rural supporters do not care who he does deals with, so long as he delivers.

Mr Thaksin has also pledged, however, to maintain the budget deficit at 105 billion baht a year. And he is now trying to scrape together a "stimulus fund" to deal with a slowing economy. In January, Thailand ran its first monthly trade deficit since 1997.

This week, despite the budget squeeze, Mr Thaksin set out to show that he intends to keep his promises. His government announced that it will suspend repayment of 75 billion baht of farm loans for three years, beginning on April 1st. Also in April, several Thai hospitals will begin offering treatment for a standard fee equivalent to less than a dollar a visit.

The cost of these plans could grow sharply. But Mr Thaksin has good reasons to hurry. Thailand's Constitutional Court will soon rule on his recent indictment by an anti-corruption panel. At present, the court risks undermining its credibility whichever way it rules—either by treating Mr Thaksin more leniently than previous offenders, or by unseating a prime minister who has just won a resounding victory.

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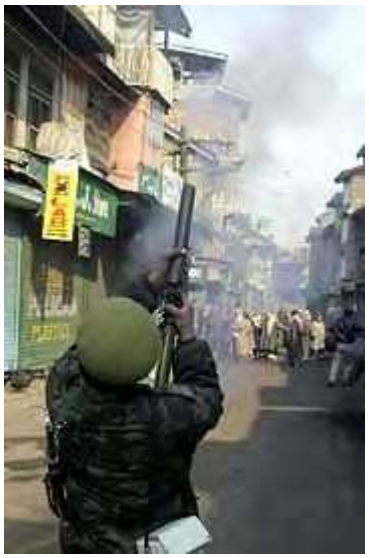
Kashmir

Muted applause

Feb 22nd 2001 | DELHI
From The Economist print edition

INDIA'S unilateral ceasefire in Kashmir, already twice renewed, was beginning to acquire the weary aura of serial Hollywood marriages. In announcing a third extension on February 22nd the prime minister, Atal Behari Vajpayee, spiced it up, extending it by three months rather than just one. That should give diplomacy more time to work. At the same time, he gave warning that militant groups flagrantly disregarding the ceasefire would not be spared.

AP



It's only teargas

The peace initiative needs a new twist. It began promisingly in November, with India suspending offensive operations against militants fighting its rule of the mainly Muslim state. Pakistan in turn withdrew troops from the line of control, the unofficial border between the zones run by the rival countries.

Violence subsided appreciably. In the past couple of months, though, it has mounted again, while diplomacy has stalled. Attacks on Indians, in and out of uniform, by pro-Pakistan guerrillas have not abated. They were widely blamed for the killing of 15 civilians, including seven children, on February 10th. To Kashmiris, India's ceasefire is beginning to appear a mere abstraction. When protesters demonstrated on February 15th against the killing of a suspected militant, said to be in police custody, India's army opened fire, killing five of them.

The incident prompted curfews, more protests and more killings. By extending the ceasefire, this time with explicit backing from most political parties, India is playing to two galleries: international opinion, which has applauded it, and moderate members of the separatist All-Party Hurriyat Conference, whom India sees as the likeliest partners for peace on terms it can accept. Another less amenable audience is Pakistan, which has helped to keep peace along the line of control.

As the past few months have shown, not much more can happen without further co-operation from Pakistan and from some militant groups it influences, if not controls. The main idea for getting that was to let a Hurriyat team visit Pakistan. That was supposed to happen in mid-January, but India has so far failed to issue passports to all five members of the delegation. Its fear is that the visit will become an occasion for bashing India and promoting Pakistan's claim to Kashmir.

India is particularly concerned about the role of Syed Ali Shah Geelani, a pro-Pakistan hardliner who regards the Kashmiri cause more as a religious jihad than a political one. Hurriyat moderates also are keen to keep him in check. India has not yet decided that the Hurriyat is tame enough to go, nor has it managed to initiate talks without the trip.

The Indian government thinks the ceasefire alone should have reduced export of violence from Pakistan. General Pervez Musharraf, Pakistan's military ruler, has hinted at a willingness to curb radicalism. If peace is to progress, one side or the other will have to make more than a gesture.

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Afghanistan's opium fiends

Feb 22nd 2001
From The Economist print edition

JUST as some rare good news emerges from Afghanistan, where the Taliban rule by strict religious decree, they are condemned again. They were already unpopular for harbouring the world's most-wanted terrorist, Osama bin Laden, who may have masterminded bomb attacks on American targets, and for their abysmal treatment of women and non-Muslims. This week an American group, Human Rights Watch, accused the Taliban of massacring 300 men during a battle for control of a town in January. Even the sliver of good news, that the opium harvest is likely to be cut to zero this year, has been described by some outsiders as a sneaky trick to push up export prices.

EPA

Now try wheat

Afghanistan last year produced 3,200 tons of opium, three-quarters of the world's supply. Transformed into heroin, it is exported by smugglers, mostly to Europe. Exports of the stuff, along with the smuggling-out of refugees, have long been the only profitable industry in the country. But after years of lobbying by the United Nations and the imposition of sanctions, farmers have been banned from growing the poppy flower. The Taliban issued a *fatwa* in July forbidding the crop as ungodly, with a warning to young Afghans against addiction to opium.

Although it is easily the most profitable crop for desperately poor and indebted farmers, and though the Taliban raise revenue by taxing the trade, that edict has been strictly enforced. Sandro Tuchi of the UN Drug Control Programme said this week that a survey of Helmand and Nangarhar, two fertile districts which produced 86% of Afghanistan's opium last year, revealed just 25 hectares (about 60 acres) of poppy bushes and "no systematic poppy cultivation". Farmers have opted for wheat instead; just as well, given that the country is in its worst drought for 30 years, a threat to areas holding 8m-12m people.

But opium prices have shot up, says Mr Tuchi. A kilo bought at the place of production last July would cost $35-40. This year it fetches $200-350, depending where you buy it. Higher prices for heroin in Europe are likely to follow, even if the Taliban sell opium from their stockpiles in the far north and south of the country. That is possible only for a few months, because opium soon dries and becomes too hard for simple conversion into heroin. Such high prices could quickly tempt farmers and the Taliban to return to their old ways and reap handsome profits.

If they stick to last year's *fatwa*, the change should be welcomed with "cautious optimism", suggests the UN. But the many other bones of contention between the outside world and the Taliban mean that international recognition of the Islamists as Afghanistan's government is still a long way off. This month the Taliban's informal "embassy to the UN", in a scruffy quarter of New York, was ordered to be closed by the American authorities. In retaliation, the UN was told to shut its political office in Kabul, the Afghan capital. No peace pipes yet.

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For Europe's Parliament, power without love

Feb 22nd 2001 | STRASBOURG
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Giving the European Parliament more power was meant to make the European Union more democratic. So far it hasn't worked out that way

IN THE vast semi-circular debating chamber of the European Parliament in Strasbourg, Neil Kinnock, a former British Labour Party leader, now one of two deputy heads of the European Commission, is giving evidence. From high up in the galleries, it appears that a dozen out of a possible 626 Euro-MPs are present; they are easily outnumbered by the simultaneous translators in the booths surrounding the hall.

To the casual observer this desultory scene might seem to illustrate the idea, widely held, that the European Parliament is pointless and powerless. But this notion, if it was ever true, is out of date. The parliament is far more powerful than most people in the European Union realise. However, as with America's Congress, much of the action takes place not in the debating chamber but in committee rooms and corridors.

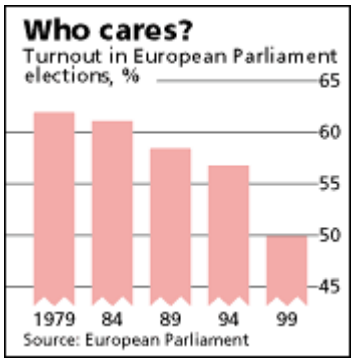
The most obvious clue to the power of the parliament lies in the number of lobbyists thronging its buildings in Strasbourg and Brussels. The set-piece battle of this month's session in Strasbourg was over a directive on copyright law initiated by the commission, the EU's bureaucracy in Brussels. Telecoms companies and the record industry ranged themselves on opposite sides, as they struggled to get parliamentarians to amend legislation that will greatly affect the music industry in the Internet age. Both sides poured money into flying in anyone they could think of to bolster their case: "You'd be amazed how many female pop stars I've met in the past couple of months," mused one Euro-MP. Suitably impressed, last week the parliament rejected the amendments that most annoyed the record companies.

The copyright vote was by no means an isolated case. Last week too the parliament accepted legislation that should let an EU moratorium on the sale of new products including genetically modified organisms be lifted. Meanwhile members of the commission are fuming that the parliament has hobbled efforts to liberalise Europe's postal systems and blocked measures to make company takeovers easier.

Since the Amsterdam treaty of 1997, the parliament has had powers of "co-decision"—essentially the right to amend and veto but not to initiate legislation—over many policy areas including the internal market (hence the copyright battle), consumer protection, health and safety, social policy, the environment and so on. Taken together, this amounts to most of what the EU does. Jan Marinus Wiersma, a Dutch Euro-MP, points out that although debates in his parliament back home get far more

attention in the Dutch media than goings-on in the chamber in Strasbourg, something like 30-40% of national legislation in the Netherlands now simply implements decisions already taken at a European level. Julian Priestley, the parliament's secretary-general, points out that, given its powers over the internal market and other issues, "over time the parliament can influence the direction of the European economy."

Before it got its new powers, it had looked trapped in a vicious circle. Since it had no power, it had no credibility; since it had no credibility, no one was inclined to give it any power. The Maastricht and Amsterdam treaties were meant to set up a new virtuous circle: more power leading to more credibility—and more power. The parliament, it was hoped, would make the EU, seen as remote and technocratic by most of its citizens, more democratic. As if to flex its new muscle, in 1999 the parliament forced the entire commission, then led by a Luxembourger, Jacques Santer, to resign.



Yet despite that dramatic assassination, and the parliament's wider powers across a range of legislation, Europe's voters were unimpressed. In the 1999 European elections, turnout fell below 50% for the first time since parliament began to be directly elected in 1979; and without laws in Greece, Italy, Luxembourg and Belgium that force citizens to vote, turnout might barely have hit 42%.

The media are just as bored. So much so that the European Parliament (more precisely, the EU taxpayer) pays to fly in journalists from EU countries, in an effort to drum up some interest in its sessions in Strasbourg.

So why is the parliament still so invisible? Euro-MPs may have reckoned that sacking the commission would have given them a boost, but that does not seem to have happened. Voters may simply have concluded that anything to do with "Brussels" is sure to be sleazy. Euro-MPs, for their part, comfort themselves with the thought that as voters realise that power has moved to the parliament they are bound to start paying a lot more attention.

But there's a gloomier view: that the European Parliament specialises in a form of politics drained of drama. It is only one of three main players (the commission, and the Council of Ministers, where governments are represented, being the others) in a complex, and to many incomprehensible, European process of law-making. Mr Priestley comments that "if you start to explain to people how it works, you can see their eyes beginning to glaze over." The parliament's party structure, where groups of ideologically like-minded Euro-MPs from the EU's 15 countries clump together in an effort to transcend national loyalties, is too fragmented to generate the conflicts that might generate headlines. Nor is multilingual debate, conducted through headphones, UN-style, much of a spectator sport. A standard rule of Euro-debate is: don't make any jokes, they don't translate. The upshot is that even when the parliament is doing something that will affect ordinary voters, they are highly unlikely to be following the debate.

That may be good news for lobbyists, but bad news for those who hope that the European Parliament may help make the EU more democratic. For if the public and the media pay scant attention, it is hard to see how Euro-MPs will be held to account. Larry Siedentop, an American academic at Oxford, argues that if Europe-wide politics are ever to take off, they must win "the power to entertain". For the foreseeable future, the European Parliament looks likely to fail that test.

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Languages

English is still on the march

Feb 22nd 2001 | BRUSSELS
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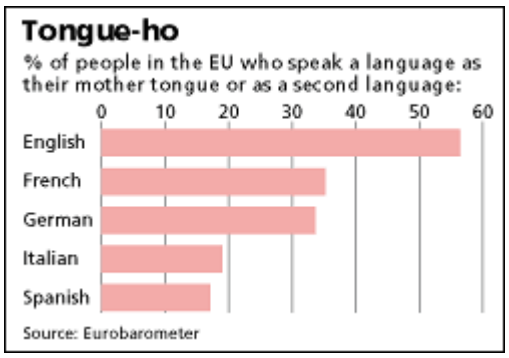
Britons are lazy about languages because English is the EU's lingua franca

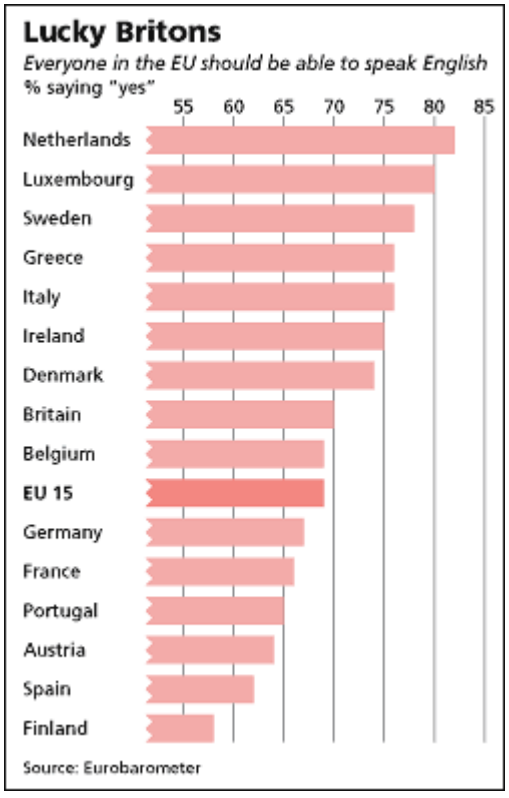
IS ENGLISH becoming the European Union's tongue? A survey, out this week, of the linguistic skills of 16,000 of the Union's citizens suggests that it is well on the way. Perhaps more surprisingly, it also suggests that more and more (non-British) Europeans accept the idea that all Europeans should learn English.



Over 40% of them claimed to "know" English as a foreign language. Add that to the almost 16% of the EU's people who are native English-speakers, and already over half the EU claims to be able to converse in English.

The onward march of the English language is often assumed to raise hackles across Europe, particularly in France, but also in Germany (see article) and elsewhere. However, the survey suggests that the opposition may be exaggerated. Some 69% of respondents agreed with the proposition that "everyone should speak English"—including 66% of the French, which is only a shade less than the number in Britain.

Given that everyone else is learning English, it is perhaps unsurprising that the British are the worst at learning other European languages. Some 66% of them, judging by the survey, speak no foreign language at all, compared to the EU's average of 47%. Luxembourgers are the best linguists: only 2.2% of them are monoglottal. The Dutch are pretty brilliant; over 80% of them speak English.



The rise of English may bolster some European federalists who have long battled against the idea that European political integration, as well as labour mobility within the single market, will be constrained by the lack of a common European language. But they should not be too confident. Even now, nearly half of all EU citizens still speak no language other than their own. And even bilingual countries can find themselves politically divided by language. For an example look no further than Belgium, whose capital, Brussels, serves as the EU's headquarters. Belgian politics is bitterly divided between French and Dutch speakers—even though all schoolchildren, and certainly all politicians, are meant to speak both languages.

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You have ways of making us talk

Feb 22nd 2001 | BERLIN
From The Economist print edition

SO THE French think they have a problem with *franglais*. They should visit Germany. The language of Goethe is awash today with English expressions. The resultant mish-mash, known as *Denglisch* (but pronounced “Dinglish”, in case the point wasn’t clear) is *super-cool* and *in*.

Witness Berlin’s film festival, where ageing *Stars* with fading *Sexappeal* received *Standingovations* from *Fans* lucky enough to have got *Tickets* for their idols’ *Comebackperformances* in *Films* with the habitual *Happyend*. After the *Show*, journalists in their *Smokings* were invited to the *Pressebriefingraum* for an *Interview* with the *workaholic Festivalboss*, in his *trendy Jacket und Jeans*, or a*Get together* with some *Producer* briefly silencing his *Handy*, his mobile phone, to puff his latest *Jointventure* with his *Jetset Powerpartner*, before dashing off, being, he admitted, a trifle *gestresst*, to a late-night *Fitnesstraining* at the *Businesssportcenter*.

While most Germans, unlike the French, have traditionally been proud of their language’s ability to absorb foreign idioms, many are beginning to think that enough is enough. Wolfgang Gerhardt, leader of the Free Democrats, Germany’s liberals, has denounced the “flood of anglicisms descending on us from the media, advertising, product description and technology” as a form of “violence not coming from the people, but imposed on them.” Wolfgang Thierse, Social Democratic speaker of the Bundestag, as the lower house of Germany’s parliament happily is still known, has urged members and officials to rise up against the threatened “ruination of our language”. Eckart Werthebach, the Christian Democrats’ interior minister of the city-state of Berlin, is pressing for a law, like one that was introduced in France in 1994, to save “our most prized cultural possession” from a hostile foreign takeover.

But, as ever, Germany is haunted by the ghosts of its past. Did not the Nazis seek to “purify” the German language in the 1930s? Were not Germanising dictionaries published during the first world war, to purge it of its then most dangerous enemy, French, much as Joachim Heinrich Campe sought to counter the same subversive influx during the French Revolution by introducing some 11,000 German equivalents of French words? Those attempts were of little avail. Most Germans doubt that any new one would fare better. Not a few, especially intellectuals, regard the whole venture as faintly ridiculous, even distasteful.

The new culture minister, Julian Nida-Rümelin, a former professor of philosophy, says that Germany has no need of a language police or a language-protection law; the state should not intervene in a process to which every living language is subject. Besides, says the minister, today’s globalised world needs an international language.

In business, science and technology, English already serves that function; to oppose its use is to deny reality, he argues. His predecessor, Michael Naumann, was equally convinced of the futility of trying to play *König* Canute. Within 50 years, he once said, “English will be the common language of Europe. So everyone had better learn it.”

Well, maybe. But English is one thing, *Denglisch* is *eine andere*.

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Germany

Gunning for Fischer

Feb 22nd 2001 | BERLIN
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THE shadows of Joschka Fischer's far-left past may yet catch up with him. On the day that Germany's foreign minister was winging his way to Washington this week to question the Americans about their bombing of Baghdad, state prosecutors in Frankfurt launched criminal investigations into his past relations with other no less questionable bombers of a more revolutionary bent. And Germany's centre-right opposition is demanding a potentially more threatening parliamentary inquiry into the whole of Mr Fischer's past career as a self-confessed revolutionary "street fighter" in Frankfurt in the late 1960s and 1970s. Even some of those close to Germany's Social Democratic chancellor, Gerhard Schröder, who this week again expressed confidence in his increasingly beleaguered foreign minister, now wonder whether Germany's leading Green and most abidingly popular politician is on the way out.

Earlier publication of photographs of a youthful Mr Fischer beating up a policeman during a riot in 1973 has already forced him to admit the "important, perhaps central, role" he once played in Frankfurt's often violent, far-left radical scene. Now police are looking into an allegation that he lied in court, after he claimed during the recent murder trial of a former fellow street fighter (who was sent to prison for nine years) that he had never given shelter to any far-left terrorists at the time. A former member of the notorious Baader-Meinhof gang claims she once spent a couple of nights at a house which he shared with others.

Mr Fischer has also been forced to admit taking part in a Palestine Liberation Organisation conference in Algeria in 1969, which called for the Palestinians' "final victory" over Israel. If Mr Fischer's support for that line could be proved, said Edmund Stoiber, Bavaria's powerful premier, then he was no longer acceptable as Germany's foreign minister. Some in the government's ranks privately agree.

Once the government's star turn, Mr Fischer may be turning into a liability. Further embarrassment is certain if the opposition succeeds in setting up a wide-ranging committee of inquiry into the murkier aspects of his past; that needs the vote of only a quarter of all members of the Bundestag. The opposition has long been itching to get a good scandal going on the left, to rival its own slush-fund scandal. Some Christian Democrats believe they could even bring Mr Schröder's "red-green" coalition down if its leading Green member were forced to resign.

Yet, though he is still one of the government's best-liked and most respected members, Mr Fischer is no longer the linch-pin he once was. He brought the Greens into the coalition, and was an indispensable trouble-shooter during its turbulent early months. But neither Mr Schröder, who has recently been taking foreign policy more into his own hands, nor the Greens, who have grown up during their two years in power, have so much need of Mr Fischer as they used to.

Besides, in Renate Künast, appointed last month to the new post of consumer-affairs and agriculture minister, the government has another Green capable of rivalling Mr Fischer in eminence and popularity. Of course, it would embarrass Mr Schröder to lose yet another minister, especially someone of Mr Fischer's calibre. But if it happened, it would be unlikely to rock the government as badly as it might once have done.

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Charlemagne

Mart Laar, Estonia's punchy prime minister

Feb 22nd 2001
From The Economist print edition

IT IS the smallest country in ex-communist Europe, and the most hyped. But whichever way you look at Estonia, with its not-quite-1.5m people, the picture looks rosy. The country's economy is growing at a rate of around 7% a year. Inflation is low, foreign trade is rising by 25% a year, foreign investors are keen, taxes are low and most of state industry has been efficiently sold off. Politics is boringly stable and patently open. Democracy is secure. Foreign businessmen judge Estonia the least corrupt of all ex-communist countries.

Thanks to all this, Estonia has made itself a front-runner to join the European Union and, if the United States dared to back the idea hard enough, perhaps even NATO. Stability and prosperity are also helping to win the allegiance of more of the 400,000-odd Russians (and other Slavs) who settled in Estonia or were born there during the Soviet era but who became non-citizens when the empire collapsed. Many of them are now loyal, even enthusiastic, Estonians.

It is music to western ears that have heard so few post-Soviet success stories. Few sing it better than Mart Laar, a lively historian now, aged 40, serving his second term as prime minister. He wants not just to catch up western countries but to overtake them. That does not seem utterly fanciful. At cabinet meetings you see almost no paper—just screens and keyboards. One minister recently took part using a laptop—from Australia.

Yet Estonia is still scarred by decades of Soviet occupation. Many roads are bumpy, many buildings tatty (except in the lovely old bit of the capital, Tallinn), and compared with their Nordic peers (as they like to call them) Estonians still fall short in terms of honesty, efficiency, politeness, trust, flexibility and openness, though they are stellar when set beside the Russians. Some bits of Estonia's public service—its Finnish-trained border guards, the foreign ministry and Mr Laar's own advisers—are impressive. Other parts of it, such as local government and many of the ministries, still behave in a far more Soviet than Nordic way.

When Mr Laar's right-of-centre coalition took power two years ago, it was determined to reform the machinery of government. It took some sensible measures—for instance, sharply cutting the number of police, while giving big pay rises to those who stayed. But, in view of Estonia's grand ambitions, the results have so far been a bit of a let-down.

The government's greatest feat has been to get the economy going again after Russia's financial collapse of 1998. That meant hefty cuts in spending to balance the budget and pay for a big tax cut for businesses. But trickier reforms, of, for example, health insurance, social security and pensions, are proving hard to enact. A promised cut in the number of ministries has yet to happen.

Instead, Mr Laar has paid a lot of attention to swanky futuristic projects. Some of these are ingenious, like a plan (echoing one in Iceland) to commercialise Estonia's gene pool by letting researchers into disease and heredity look at the country's DNA—for a price. Others smell of gimmickry, such as finding a new "national symbol and idea" to "shape Estonia's identity from the inside and make it more known abroad". The use of "e-stonia" to point up the country's voracious use of the Internet is another fancy ploy.

The idea is to inspire people. But Mr Laar, a talkative man in a taciturn nation, sometimes seems better at burnishing his country's image to foreigners than at connecting with his own people, many of whom think of him as glib, even slippery. By his own admission, his style used to be "first decide, then talk". Now, he says with faint irritation, it is "talk, talk, talk—and then decide". Decision-making is plainly the bit he enjoys.

Government may be more collegiate than in the heady days of the early 1990s, but there are growing worries in the country at large about the biggest project under way: Estonia's headlong rush to the EU. In the hope of being one of the first ex-communist countries to join, Mr Laar and his colleagues are swallowing their liberal economic principles and agreeing as fast as they can to onerous EU rules on labour, environmental and other matters.

But Estonia's bureaucrats found it hard enough to cope with the laisser-faire regime that followed the collapse of communism. Administering complicated EU rules will be horribly difficult. Small businesses are already complaining that it is hard to fire bad workers, of whom Estonia, like other ex-communist countries, has more than its fair share. A large chemical company says that applying EU emissions standards could force it to close.

There are also problems with Estonia's other big objective, to join NATO. Many Estonians still think that whatever the West promises they, like their grandparents, may at some point have to fight a partisan war against a foreign (read Russian) invader. Yet if Estonia were indeed to join NATO, it would need a quite different kind of armed forces: mobile troops useful for peacekeeping, for example, rather than a citizen army and secret arms dumps in forests. Some people in the new American administration seem to think they may be able to slip at least one Baltic state into the next batch of NATO entrants. But Germany, much keener to placate Russia, would rather keep the Balts out of the alliance altogether. That disagreement will be settled in the coming months—but, as so often in the past, over Estonia's head.

Estonians have much else to hope for. By post-communist standards, Mr Laar is an impressive politician, with a huge zest for work. When not running the country, he is learning French (a wise acquisition for EU applicants), to add to his fluent German, Finnish, Russian and English. His Swedish, he says apologetically, is only passable. He reads books (currently Harry Potter, a big hit in Estonia) and writes them (on economics, history and politics). He avidly collects material about August Sabe, a heroic anti-communist Estonian partisan, whom the KGB caught only in 1975. If, besides all that, Mr Laar can get his government to bring off some of the hardest pending reforms, his country may yet match its well-polished reputation. If not, stand by for a dose of disappointment.

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Spain and the Basques

A fresh choice?

Feb 22nd 2001 | MADRID
From The Economist print edition

AFTER struggling for a year to govern without a clear majority, Juan Jose Ibarretxe, head of Spain's troubled Basque region, has decided to call it a day and dissolve its parliament. Early elections will be held on May 13th. They could lead to a big change: for the first time since post-Franco Spain adopted its devolved pattern of government at the end of the 1970s, control of the regional administration may pass from the independence-minded but non-violent Basque Nationalist Party (PNV) to parties that defend the unity of the Spanish state.

AP

Ibarretxe seeks a new façade

In the short term that would not stop the killings—over 800 in the past 30-odd years— perpetrated by the terrorists of ETA in their campaign for an independent Basque state. Probably quite the opposite. But Spain's prime minister, Jose Maria Aznar, who hopes his People's Party (PP) might, for the first time, win the most votes in the Basque region, foresees longer-term benefits. A halt to the flow of official funds and patronage from a regional government broadly sympathetic to separatism could hurt ETA. So could non-nationalist control of the region's police force, often accused of being lily-livered in its pursuit of the terrorists.

For the past year, Mr Aznar has waged a war of attrition on the PNV. Having won an outright majority in Spain's general election last March, he had no use for their support in the parliament in Madrid. And he was outraged by the PNV's failure to break all its links with Euskal Herritarrok (EH), ETA's political wing, after the gunmen in late 1999 decided to end a 14-month ceasefire. Since then 26 people have died, including two in ETA's car-bomb response to the calling of the election.

Mr Ibarretxe did indeed start to sever links with EH in the regional parliament a year ago, after ETA began to kill again. But the PNV's veteran party leader, Xabier Arzalluz, a more powerful figure than Mr Ibarretxe, proved more reluctant to renege on the alliance he had forged with the separatists, to work together for independence in return for peace. As the death toll rose, so did the anger felt by Spaniards who poured on to the streets in hundreds of thousands, in the Basque region and elsewhere, in protest.

Voters in the Basque region range from outright separatists through nationalists to the many who are happy to be simply hyphenated Spaniards and to a few who think they are plain Spanish, period. They have been divided more than ever by the political confrontation. Until Mr Aznar came to national power in 1996, Socialist governments in Madrid, mindful of the years of repression under Franco, had tried to placate the PNV, lending local Socialist support to nationalist governments in the region and hoping thus to maintain a united front against violence. Mr Aznar says that this tactic has not worked, and that it is time for Basques to leave the past behind and condemn ETA outright, though even he acknowledges that they are free to pursue any political aim, even independence, peacefully, through existing institutions.

Will his own tactics work? Opinion polls suggest that his PP could win 20-24 seats in the 75-seat regional parliament, as against 16 last time round, in October 1998. The Socialists might hold their 14. The PNV might hang on to its 21, or even gain one. Support for EH is notably down, but still high enough to give it 10 or 11 seats, as against 14 before.

Mr Aznar's plan depends on co-operation from the Socialists—which is likely but not assured. The two parties signed an anti-terror agreement at the end of last year. This was seen by some as the prelude to a coalition government in the Basque region. But the Socialists say their options are open. And even if they were willing, stable government would probably depend on help from small parties such as Eusko

Alkartasuna, a now dwindling breakaway from the PNV, and the United Left, the umbrella group which includes the former Communists. Plenty of uncertainty lies ahead.

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Italy

I'll divest, then

Feb 22nd 2001 | ROME
From The Economist print edition

HE MIGHT sell, after all. Silvio Berlusconi, Italy's opposition leader, this week surprised many but convinced few when he declared that, if forced by a "monstrous" new law to choose between his business empire and the job he covets as prime minister, he would shed his empire. That would be some event, for he is one of Italy's richest men. His holding company, Fininvest, controls Mediaset, Italy's biggest private television group, embracing three out of the country's six national channels, rakes in half of all television advertising and owns films, mobile-phone and Internet companies. Mr Berlusconi and his family also own Italy's biggest publishing house (Mondadori), a leading newspaper (*il Giornale*), an influential weekly (*Panorama*), a football team (AC Milan), a big bank (Mediolanum) and much else besides.

Mr Berlusconi is hot favourite to win the general election expected in early May. Though the centre-left coalition government under Giuliano Amato has not done badly, it is in disarray. The left's candidate for prime minister, Francesco Rutelli, the affable mayor of Rome, has yet to make an impact. Opinion polls reckon that Mr Berlusconi's coalition of his own Forza Italia ("Go, Italy!"), the post-fascist National Alliance and the near-separatist Northern League, whose latest joint label is the House of Freedoms, will win a majority in both houses of parliament.

The piece of legislation that is rattling Mr Berlusconi addresses conflicts of interest. It was passed unanimously in the lower chamber three years ago, but was set aside when the ruling left thought it had struck a bargain: Mr Berlusconi's conflicts of interest (and, possibly, some of his myriad legal problems) would be overlooked—if he agreed to help change the constitution. That turned out to be a miscalculation. Mr Berlusconi ultimately dropped his support for constitutional change, but the law to resolve conflicts of interest was never enacted.

With the general election looming, the left has decided to resuscitate the issue. A stricter version of the law previously passed in the lower house is now being debated in the Senate. It proposes that public officials, including the prime minister, members of government and parliament, and the bosses of state companies, should declare their assets and business interests within 40 days of their election or appointments. If they are worth more than 15 billion lire ($6.9m), they have another 45 days either to sell up or hand over to a blind trust. If, as expected, the Senate votes for the new terms, the bill would again be put before the lower house. It is unlikely to become law before the election, but Mr Berlusconi now hints that he may in any event abide by its terms.

Truly? His opponents say his stated amenability is just a clever way to weaken the left's resolve. Others think he may hand his empire to his children; two of them, Piersilvio and Marina, already run chunks of the family business. What is certain is that Mr Berlusconi is determined to win back the job he held for only seven months in 1994. Besides, the prime minister's office in Rome's Palazzo Chigi is grander than even any of his multiple boardrooms.

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Albania

Getting better

Feb 22nd 2001 | TIRANA
From The Economist print edition

CURIOUS things happen in the capital of a country that used to be called the poorest in Europe, until Moldova took that title. Last year, the opera singers in Tirana went on hunger strike, because Albania's government wanted to pay the divas a lot more than the chorus. This year, the problem is the zoo: the zoo-keepers survived the dark years of the mid-1990s by snaffling the lions' meat rations and feeding some of the weaker creatures to the carnivores. When stocks ran out, the lions were fed with hay: "We have the world's only vegetarian lions," jokes Edi Rama, Tirana's mayor.

AP

Meta-morphosis

Mr Rama is one of the reasons to hope that life in Albania will grow more conventional in the next few years. A former basketball star, he worked as an artist in Paris before returning in 1997 to become minister of culture in a coalition government led by Ilir Meta (a former weightlifter) and his ex-communist Socialists. Since Mr Rama became Tirana's mayor in October last year, he has set about trying to improve tax collection, stamp out the illegal building projects that deface the city's skyline, clear illegal stalls from its few parks and persuade local shops to help mend the potholed pavements. If he had his way, he would also get the EU to help with education. He dreams of a Balkan university in Tirana, offering courses in how multi-ethnic societies can work.

On the wider front, Mr Meta shares Mr Rama's desire to make Albania more democratic and orderly, with a market economy whose rules people actually obey. Mr Meta says his main achievement in 14 months as prime minister has been to cut crime, clean up the customs service and boost the tax take. Now he says he wants a civil service independent of politics. He has brought into his government a clutch of young technocrats, some under 30, without party-political baggage. At 31, he is too young to be weighed down by any himself.

On the face of it, the economy is doing nicely: this year, for the third in a row, it should grow by more than 7%. The currency, the lek, has been stable; inflation last year was 2%; and remittances from abroad, where about a quarter of Albania's people of working age have gone since communism ended a decade ago, are paying for a building boom.

Some of the growth is rebound from the havoc caused by the financial crisis of 1997, when half the people in the country saw their savings wiped out as a string of bogus pyramid banking schemes collapsed. The economy crashed to just about where it had been when the communists bowed out in 1991. Foreign investors fled and are only tentatively reappearing: a Greek-Norwegian consortium has bought the company that operates Albania's first mobile-phone network, for instance; and a Greek-British one has bought the second mobile-phone licence. Few local firms are anything but tiny.

Change will take more than investment. This is a country where the brightest and best pile into motorboats for the scary trip across the Adriatic to Italy: of the 1m or so Albanians living outside the country, guesses Mr Rama, fewer than a fifth left with valid visas. In addition, corruption has been the normal route to advancement. Some of the new lot are no angels; but most outsiders reckon that corruption has diminished a bit.

Grinding poverty is still pervasive: annual GDP is around $1,000 a head, more than a dozen times less than it is in Greece, across the southern border. Roads are dire. This winter, power cuts have been repeatedly plunging the country into darkness and caused havoc at a giant Turkish-owned steel plant in

Elbasan.

Even so, with a general election due in June, the coalition has a fair chance of winning again; that would be quite a feat, in a region where enthusiasm for “throwing the rascals out” has rarely let governments serve a second term. Support for the opposition Democratic Party, led by Sali Berisha, Albania’s first post-communist president, may be dipping.

If Mr Meta wins, he says he wants to keep on trying to drag his country into the wider Balkan market, a process that should be helped by the recent restoration of political relations with Yugoslavia. His greater goal is to forge links with the EU, which appreciated Albania’s restraint during NATO’s war in mainly ethnic-Albanian Kosovo.

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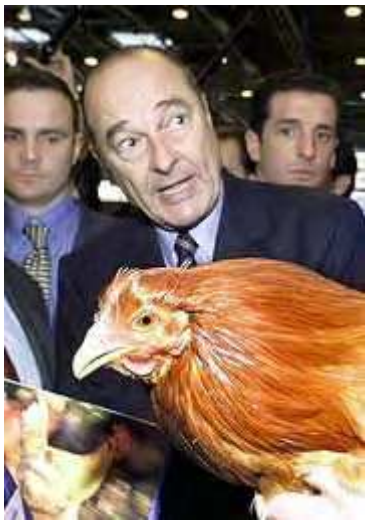
France

Mad cows and farm votes

Feb 22nd 2001 | PARIS
From The Economist print edition

THE friend of France's farmers, and now of their sheep? President Jacques Chirac, opening this week's annual agricultural fair in Paris, knows exactly how to play on the nation's nostalgia for its rural roots: drink beer, pat the beasts, and denounce last week's recommendation from France's independent food-safety agency that various bits of sheep even as young as six months should be excluded from the food chain, lest the brain-wasting malady—scrapie, in English—from which sheep can suffer may prove to be capable of infecting humans as BSE, mad-cow disease, is.

AP



The president and friend

Scrapie has been around for centuries, and the EU already has rules banning things like the use of brains and marrow-bone from sheep more than 12 months old. "There's no new proof whatsoever for what amounts to a quite regrettable incitement to panic," declared Mr Chirac. "This announcement on the eve of the fair is evidence, at the least, of stupidity and bad taste." At which point Luc Guyau, leader of the main farmers' union, looked as pleased as punch—while Jean Glavany, the agriculture minister, kept a tight-lipped silence.

Understandably. This is the second time on matters of food and farming that Mr Chirac has wrong-footed the Socialist-led government with which the voters have condemned him to "cohabit". In November he accused it of dangerous dallying by waiting for the food-safety agency's recommendation before banning the use of meat-and-bone meal in animal feed. Now, he accuses the food agency of panicky over-reaction. No wonder the government of Lionel Jospin, the prime minister, who is almost sure to oppose Mr Chirac in next year's presidential election, is exasperated. When he later visited the same Paris fair, some farmers pelted Mr Jospin with eggs.

Moreover, unlike Mr Chirac, the government has to cope with the results of the beef crisis, financial and logistical. In the past four months, demand for beef has fallen by a quarter, and farmers are having to sell below cost. Meanwhile, the recently imposed mandatory testing of cattle aged under 30 months for BSE is overwhelming the veterinary laboratories and, as ever more infected cattle are found, the abattoirs and incinerators too, since the entire herd must be slaughtered if just one case is discovered.

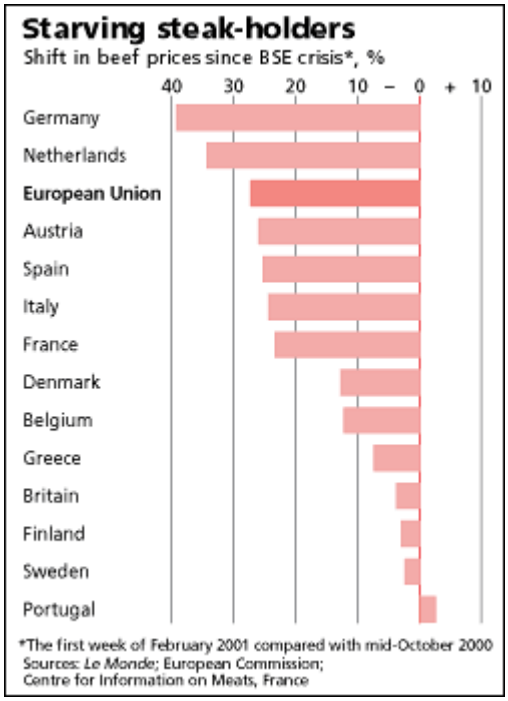
Last week, Mr Glavany announced a scheme to slim the beef surplus by killing up to 10,000 (healthy) cattle a week and freezing their carcasses. Freezing where, though, and at whose expense? Mr Glavany hasn't said, waiting to discuss such matters with other European Union agriculture ministers when they meet in Brussels on February 26th.

Many of them face the same difficulties: EU beef prices have fallen, on average, by more than 27% in the past four months. The farmers everywhere are demanding compensation; in France, up to FFr3,500 (around $500) per animal. But no country is willing to put extra money into its coffers. Already 46% of the EU budget goes on agriculture. If the costs keep rising, will the EU cope?

Pessimists say a budgetary crisis is inevitable. Michaele Schreyer, the budget commissioner, denies it: spending last year was "far less than planned, which has left a surplus running into billions,"

she says. Mr Glavany is ready, just in case: “If Brussels refuses to listen to the distress of French farmers, I will assume my responsibilities, in agreement with the prime minister, and we will meet again on February 27th or 28th.”

All of which hints at something to placate the cattle farmers sooner rather than later. As Mr Chirac well knows, France faces not just presidential and parliamentary contests next year but local ones less than three weeks from now. And though those who work on the land are by now a mere 2.6% of France’s labour force, no politician ever got elected by ignoring them.



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Jack Straw takes on the law

Feb 22nd 2001
From The Economist print edition

The government is about to announce its plans for making Britain a safer place, but the police are not co-operating

Get article background

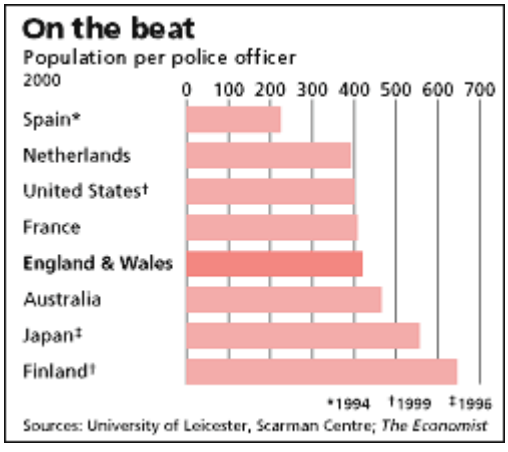
NEW LABOUR likes to present itself as the party of law and order. There's one problem with that: the facts. Recorded violent crime has risen and police numbers have fallen since Labour came to power in 1997.

Nevertheless, the government wants to be seen to be doing something. So next week, in a bid to head off criticism, the home secretary, Jack Straw, will announce far-reaching reforms of the police, including changes to recruitment, technology, training and conditions of employment.

Over the past 40 years, property crime has increased by six times, and violent crime has increased by 11 times. In the first couple of years after Labour came to power, there was a small fall in overall crime. But violent crime, which has been rising for more than a decade, continues to increase sharply. In the year to March 2000, it rose by 8%. As crime goes on going up, so the effectiveness of the police in catching criminals appears to have fallen. Clear-up rates of all crimes have dropped by nearly 50% since 1973.

International comparisons (see charts in this article and "Criminal Britain") suggest that there is no direct relationship between the number of police per head of population and the crime rate. Some high-crime countries (such as Australia) have relatively few police; so do some low-crime countries (such as Japan). Robert Reiner, professor of criminology at the London School of Economics, says that public expectations that the police alone can defeat crime are unrealistic.

Of course, the factors that lead to high crime rates are manifold and complex. Nevertheless, it is fair to assume that more effective policing may help to reduce crime. Politicians anyway know that voters want to see more police on the beat.



Britain has traditionally been lightly policed compared with many continental European countries. The government has promised to recruit 9,000 more police, but numbers have fallen since the 1997 general election by more than 3,000 to 125,000. The chairman of the Public Accounts Committee of the House of Commons, David Davies, argues that the rise in crime justifies a 25% increase in police numbers.

The problem with boosting numbers is the conflicting demands the public makes of the police. People say they want to see more police on the streets. Only about 5% of policemen are on patrol at any one time, even though patrol officers account for over half the police force. Inevitably the thin blue line appears very thin.

But putting more police on the beat will probably not have much impact on crime figures. A single patrolling officer typically covers an area containing 18,000 inhabitants, 7,500 houses, 140 miles of pavement, 85 acres of parks, 77 miles of roads, 23 pubs and 10 schools. The chance of that officer

actually catching an offender red-handed is extremely small. A Home Office study estimates that a patrolling policeman in London might expect to pass within 100 yards of a burglary in progress once every eight years, and even on that occasion is very unlikely to realise that a crime is taking place, let alone catch the burglar.

So there has been much discussion of how to make it look as though there are more police on the streets, even if there aren't. The Superintendents' Association, which represents senior officers below the rank of chief constable, argues that officers could patrol alone, rather than in pairs, and detectives could work in uniform, rather than in plain clothes.

The government is pushing for a closer partnership between the police and private security firms. The chief constable of Surrey, Ian Blair, has suggested that the police should train, accredit and "badge" approved private security firms. As the industry employs more than 250,000 guards—twice as many as there are police—that sounds like a handy quick fix. But raising the standards of private security guards to a level that would reassure the public will not be easy. More than a few of them have criminal records.

Ministers say that more police could be on the beat if less time were spent in police stations filling in forms, and in court waiting for cases to be heard. To that end, next week's announcements will include investments designed to make police more efficient, including common computer systems across the 43 separate police forces.

But there is a long way to go. Pretty much everybody—including senior police officers—now accepts that the way that the police work needs to be changed. "We are bogged down in a legacy of outdated rules, regulations and redundant practice," the Metropolitan Police Commissioner, Sir John Stevens, told a Home Office seminar.

The huge variation in performance between different forces proves how much scope there is for improvement in much of the country. In 1999 the Metropolitan Police cleared up 27% of violent crime, compared with 62% in Manchester and Merseyside. Even within the Met, there are startling differences. Clear-up rates for robbery range from 7% in Brent to 24% in Greenwich.

One concern is the quality of recruits. There are, say critics, too few clever policemen. Ministers are determined to introduce new forms of recruitment to bring in talented outsiders. But the Police Federation, the policemen's trade union, is strongly opposed to fast-track entry which would give high-fliers on short-term contracts accelerated promotion into senior ranks without having to serve on the beat as a constable.

Other areas are harder still to tackle. Nearly half of all policemen retire early, for instance, supposedly because they are unwell. Each early retirement costs the taxpayer an average of £35,000 ($51,000) in additional pension payments, besides robbing the force of experienced officers.

The shape of Britain's police force no longer makes much sense. Having 43 separate forces around the country of hugely different sizes may have made sense in Victorian times, but nobody would invent it today. The government is reluctant to force through the issue of unification or consolidation.

The police have come up against reformers before—Sir Patrick Sheehy, for instance, who sought to introduce performance-related pay in the early 1990s—and seen them off. The minister in charge of the police, Charles Clarke, makes it clear that the government is not going to try anything too fancy. "We have deliberately eschewed major structural change on the grounds that people focus their attention on that and not on what can be delivered." Even so, the Police Federation has refused to take part in talks, claiming the Home Office has a secret agenda that will undermine the police.

The last thing this government wants in the run-up to the election is a confrontation with the police. But if it wants to improve the performance of Britain's police forces, the first thing that it needs to charge is their working practices.

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A nation of criminals

Feb 22nd 2001
From The Economist print edition

Get article background

BRITAIN may have slipped down many world league tables over the past few decades, but it beats all other rich countries except Australia in one activity: crime. According to a new victimisation survey of industrialised nations, people in England and Wales are at greater risk than anywhere else of having a car stolen. And apart from Australia, people who live in England and Wales are at greater risk of being assaulted, robbed, sexually attacked and having their homes burgled than are people in any other rich country.

The results of the 2000 International Crime Victims Survey (ICVS), published by the Dutch Ministry of Justice, are deeply embarrassing to a government which has promised to be “tough on crime and the causes of crime”. That perhaps explains why the Home Office, which co-operated on the English part of the survey, says it has no plans to publish the findings.

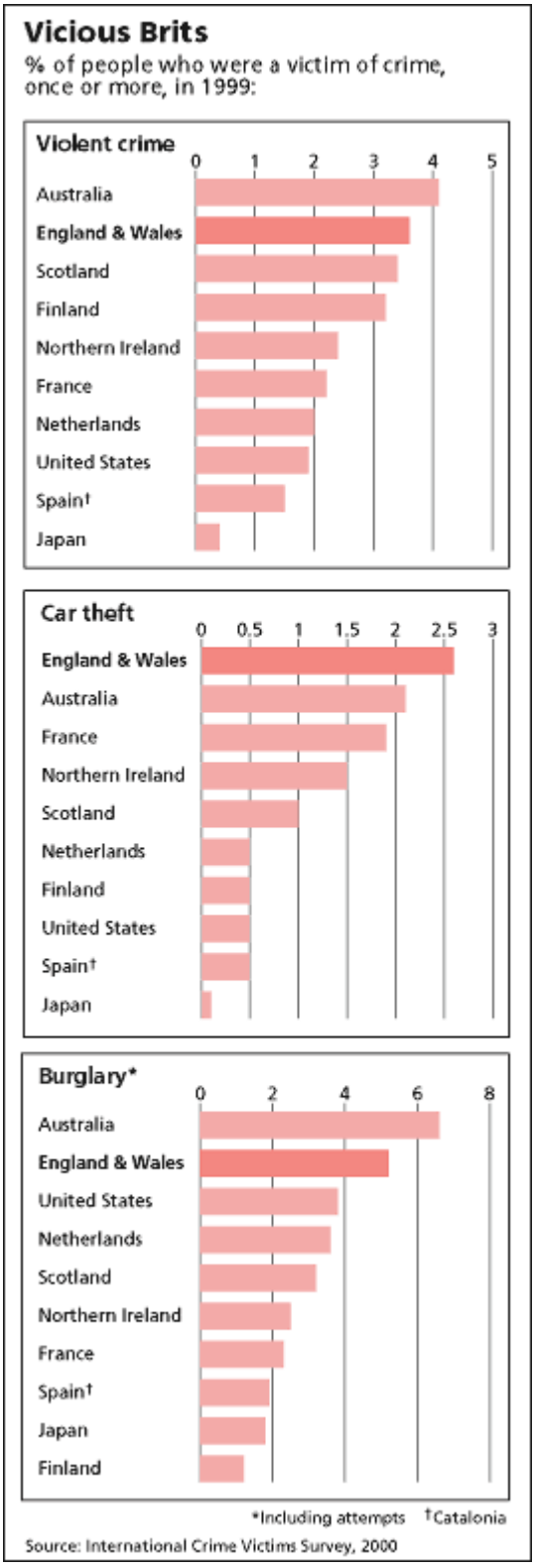
The survey, which asked 34,000 people in 17 countries about their experience of crime, divides the nations into three groups. England and Wales are in the worst group, along with Australia, the Netherlands and Sweden. America—which although way up the murder league is quite moderate in other sorts of crime—is in the middle, with Scotland, Denmark and France. Among the most crime-free countries are Finland, Switzerland and Japan.

There are no obvious reasons why England and Wales should have one of the worst crime records in the developed world. The study points out that violent crime is higher than average there, but the overall pattern of offences is not unusual. Heavy drinking, particularly among young men, is certainly responsible for some of the violence.

Lax sentencing policies cannot be to blame. England and Wales imprison a higher proportion of their people than any other country in Western Europe apart from Portugal. Nor can high rates of burglary be attributed to lack of precautions. More houses in England and Wales have burglar alarms or special locks than do those of any other rich country.

Criminologists, who find the survey results as difficult to explain as ministers, tend to blame the “get-rich-quick” attitudes of the 1980s. Other possible factors, put forward more in desperation than belief, include increased social mobility, and urbanisation.

The home secretary, Jack Straw, says that almost half of all crime is committed by a hard core of 100,000 offenders. The government has already legislated to introduce longer sentences for persistent burglars. It is now proposing to introduce special drug courts for drug offenders, who are responsible for more than a third of all property crime. But whether any of this will change this country’s position in the crime league tables remains open to doubt.



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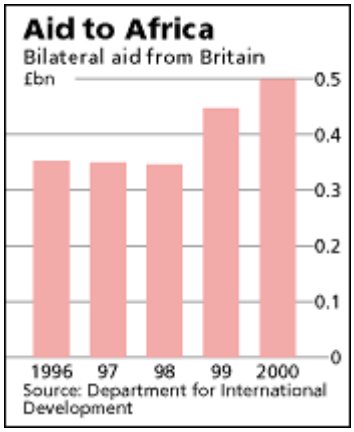
Aid

Into Africa

Feb 22nd 2001 | ADDIS ABABA
From The Economist print edition

Two generations after Britain beat a hasty retreat from its colonies in Africa, the government is showing renewed interest in the place

TAKE afternoon tea in Her Majesty's hillside embassy in Addis Ababa, Ethiopia, and Britain's view of Africa seems remarkably unchanged from half a century ago. Here you can survey the diplomats' neat bungalows, the rows of carefully-tended flower beds, a fluttering Union flag and the uniformed guard at the front gate who delivers smart salutes to visitors. Ambassadors' wives play their way across the embassy's sprawling golf course to the club house. The diplomatic chatter concerns a troublesome war upcountry, weak economic growth and the need to bolster a fledgling democracy.

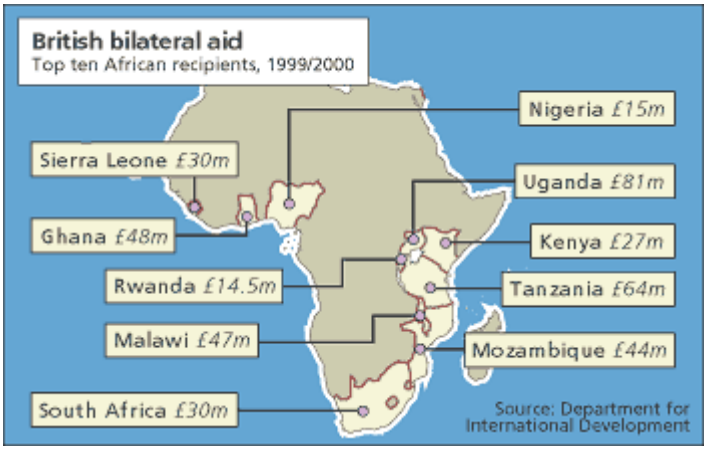


But looks deceive. Britain's interest in Africa, which long ago turned from colonial ambition to wilful neglect, may be changing again. Surprisingly, this government is interested in the dark continent. Tony Blair spoke at the United Nations in September of "a dismal record of failure in Africa on the part of the developed world, that shocks and shames our civilisation". He visited South Africa in 1999, and sees partnership with that country's leader, Thabo Mbeki, and Nigeria's President Olusegun Obasanjo, as crucial to any African revival. He now trumpets an effort with British companies such as Marconi to get new technology and skills to Africa's poor, especially to students and would-be teachers who can be taught and trained online.

More significantly, the government backs debt relief for 22 of the world's poorest and most indebted countries, most of them in Africa, which is slowly getting results. Most credit for that campaign goes to an alliance of non-governmental and church groups, known as Jubilee 2000, whose enthusiasm the government wants to harness in a campaign to improve children's health and education, again mainly in Africa.

By working with such groups, by seconding NGO workers to official jobs and by letting them influence policy, the government has won the approval of many Africanists and aid workers. "There has been real progress on the debt issue and the government has tried to do some fundamental thinking about development," enthuses Mark Goldring, head of Voluntary Services Overseas, a group which operates in 74 countries, many African.

That means doing more than doling out ever more miserly dollops of aid to favoured stricken countries. Since the end of the cold war, Britain's aid spending, along with most of the rich world, has declined steadily and has been below 0.3% of GDP for the past five years. But since 1998, overall spending has increased again, and a policy of reducing poverty in the most destitute countries means that Africa's pot has grown gradually (see chart). Africa got just £346m ($500m) from Britain in bilateral aid in 1997-98. Two years later it gets £499m, and roughly as much again is given as multilateral aid, funnelled through institutions such as the European Commission or the World Bank.



The biggest recipients are Anglophone and members of the Commonwealth. Uganda, Tanzania and Ghana (where Clare Short, the development minister, is visiting this week) got nearly £200m between them last year. But that means some of the poorest parts of Africa, such as Angola, Niger and large chunks of West Africa, are still ignored because they lack historical ties to Britain; though Mozambique (once Portuguese, now in the Commonwealth) and Rwanda counter the trend.

There is some criticism of such favouritism, on the grounds that aid is going to political allies, not necessarily those who can best use it. And there is continued dissatisfaction that too much aid is tied to purchases of British goods or services, or to the employment of British people. These sorts of subsidies almost always make aid less efficient, say groups such as Action Aid. But Mrs Short is now working to untie Britain's help and to persuade other countries to do the same.

That is one aspect of her development bill, which has surprisingly been given parliamentary time ahead of the expected May election. It is light on details, but nobly aspires to "make globalisation work for poor people". Africans will watch to see if that means anything—whether, for instance, African exports will get duty-free access to British (and European) markets and whether subsidies to Europe's farmers will be cut so African exports can compete. If not, trade with Africa is unlikely to grow and aid dependency is unlikely to decline.

The most dramatic sign of Britain's commitment to Africa has been the deployment of several hundred soldiers to Sierra Leone to train and equip that government's army and to deter more rebel attacks on the capital, Freetown. Other Britons are training the police force. They are likely to remain for at least another year and ordinary Sierra Leoneans are extremely happy that the British are there. But the debacle of British mercenaries using British weapons in Sierra Leone in 1998, and the kidnapping of a group of British soldiers by rebels last year, show the political risk being run there.

In contrast, Britain's reaction to genocide in Rwanda in 1994—along with the rest of the world—was first to ignore it and then to help prevent the UN from intervening forcefully to stop mass killings. Britain followed the lead of America, which had decided not to intervene in Africa again after a failed involvement in Somalia. But despite America's continued fear of the continent, Britain now dares step into the breach, at least when invited to do so by the government of its former colony, Sierra Leone. It would be less willing to intervene if civil war resumed in Zimbabwe, for example, as relations with that government are at rock bottom.

That country shows how testy Britain's relations with former colonies can get. As in Zimbabwe, BBC journalists are often the first to be criticised or booted out by aggrieved governments. BBC World Service radio's "Focus on Africa" programme is a rare source of reliable information for people who cannot read an independent newspaper. Not that the BBC is the voice of the British government; but it has influence, from Addis Ababa to Zanzibar, of a sort that the British government would dearly love.

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Health

Quiet blue water

Feb 22nd 2001
From The Economist print edition

REACTION to the Tories' health policies, set out by their spokesman, Dr Liam Fox, on February 20th, has tended to focus on two things: the tax breaks he proposed for occupational health-insurance schemes; and the many similarities between Dr Fox's ideas and the government's own health agenda. Only the most obvious of these is the Tory pledge to spend every penny of the money Labour has promised to the National Health Service. But there is a subtle difference in the two parties' attitudes to the private-health sector, which matters more than the marginal issue of private insurance.

The catch-all accusation levelled this week by Alan Milburn, the health secretary—namely, that the Tories intend to "privatise the NHS"—is intentionally vague. It is supposed to imply that under Tory plans, patients will be treated according to their ability to pay, and the state-funded system will be wound-down. Dr Fox's offer of subsidies for private insurance would indeed compromise the principle of equity on which the NHS is founded, so it is a convenient target for Mr Milburn. But Tory plans for private hospitals to treat more state-funded patients would not.

The Tories have in the past said that they want NHS patients to be able to choose where they are treated, and that some facilities doing the treating could be run by private companies. Now Dr Fox is saying explicitly that the NHS is better at funding health care than at providing it. He wants GPs to be able to refer patients to whatever hospital they choose between them. Dr Fox is coy about whether under his scheme NHS hospitals would gradually give way to private ones. But the implication is that eventually the NHS will become more of an insurer than a provider.

Dr Fox is probably right to say that most patients are agnostic about where they are treated, so long as the treatment is free and good. Giving patients the traditional right of consumers would go a long way towards dispelling the paternalistic medical culture that has recently generated so much anger. Competition for patients among private providers is a simpler mechanism for raising standards than the array of sticks and carrots the Labour government wants to introduce into the current system.

But there are two reasons not to get too excited. The first is that the government has already accepted the need to buy treatment for NHS patients privately. It signed a "concordat" last year with the private sector, setting out the terms under which that should happen. Though growing, the amount of NHS business diverted to private hospitals is still small. But where Labour tends to see the use of private providers as a necessity, the Tories regard it as a virtue.

There are also practical obstacles to the creation of a free market among hospitals. Dr Fox says patients and GPs should choose according to the quality of care and value for the taxpayer. But if cost per operation is the main indicator of value for money, GPs should keep away from private hospitals, because they generally charge much more for the same operation than do the NHS Trusts. NHS hospitals, meanwhile, run so close to capacity that successful ones struggle to cope with existing demand. The need for continuity of service, and national coverage, means that the market could never be completely free. Emergency care may always have to take place in public facilities.

These obstacles mean that in the short term, the parties' subtle divergence in relation to private provision will make little practical difference, whoever is in power. Dr Fox is himself reluctant to spell out the long-term implications of his ideas. But inducing genuine competition among providers could be the best way to raise NHS standards—as the government, of whatever persuasion, will sooner or later acknowledge.

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Bagehot

In defence (seriously) of cynicism and apathy

Feb 22nd 2001
From The Economist print edition

TONY BLAIR suddenly has a bee in his bonnet about cynicism and apathy. He railed against apathy last month in a speech in London. He railed against cynicism last week in a speech in Glasgow. Cynicism and apathy, he says, make voters believe that nothing ever changes, that all government is equally bad, that all politicians are the same and that there is no hope. The prime minister does not believe that people are reaching these conclusions on their own. He says the Conservatives are to blame. It seems they are spreading C&A deliberately, as part of "a backdoor strategy" to discourage people from voting. It is the job of every Labour supporter "to play a role in defeating this cynicism."

The Tories, alas, plead innocent. When asked, they too say that C&A are bad things. So it falls to Bagehot to defend these undervalued virtues. Cynicism and apathy have a bad name, but they are parts of the body politic's immune system. They keep democracy healthy.

Cynics, it is true, have changed since Antisthenes and his followers barked at the folly and injustices of ancient Greece. The modern cynic, less high-minded, has inherited mainly an intuitive suspicion of motives. With a couple of hundred extra centuries of data to go on, he applies an automatic discount to what politicians say. To take a small example, a cynic might notice that a low turnout will probably help the Tories win a few extra seats in the coming election. He then asks whether Mr Blair's sententious onslaught on C&A is really just a (cynical) way to push Labour's turnout up. Bagehot does not presume to answer. But at least such questions help voters to put the right value on the assertions of politicians.

In fairness, this may not be the sort of cynicism Mr Blair is complaining of. Who minds about healthy scepticism? The prime minister's particular objection is to the sort of cynicism that says all government is equally bad, politicians are all the same and nothing ever changes. Such notions are plainly unwelcome if you happen to believe that you are the best of all possible prime ministers busy creating the best of all possible Britains. But that does not make them altogether wrong, or always wrong. Right now, in Britain, the cynics who think this way have an unusually strong case.

Politicians are all the same? No. But Labour has helped to make them look the same. In opposition, it deliberately blew a few episodes of Tory sleaze out of all proportion in order to taint the whole of John Major's government with them. This made voters cynical about the Tories. In government, however, Labour's own actions—the serial disgracings of Peter Mandelson, the aggressive quest for political donations, the blind eye turned on perceived conflicts of interest—have made voters cynical about politicians in general. A recent NOP survey found that 49% believe that Labour politicians "give the impression of being very disreputable", 2% more than the Tories. That reverses the position before the last election, when the Tories were seen as "sleazy" by three times as many as Labour.

But sleaze is the least of it. A bigger reason why cynics consider politicians all the same is that, increasingly, their policies are all the same. Mr Blair said recently that he admired much of the Thatcherite "settlement" of the 1980s, but intended to make Britain more socially mobile than she was able to. This is a vision to which William Hague would happily subscribe as well. Deep down, Mr Blair may believe in higher public spending. Deep down, the Tory leader may believe, as Lady Thatcher did, in rolling back the state. But how can anyone tell? Mr Blair stuck to Tory spending plans for the first half of his administration, and Mr Hague now says that a Conservative government would match Labour's

promised increases on health, education, policing, transport—whatever. You can hardly slide a scalpel between the parties' programmes for the National Health Service. They are as authoritarian as one another on asylum and criminal justice. Both believe in an independent central bank, a minimum wage, and so on.

It is no sin in democracies for parties to converge on the centre. When they do, voters still have a choice to make, on credibility or competence, between the competing teams. But when Blatcherism seems the only choice on offer, Mr Blair's "cynics" are entitled to suspect that little else will change even if the government does.

They are also entitled to stay home on polling day. When Mr Blair rails at "apathy", he really means failure to vote. But voter turnout and apathy are different things. Turnout has been in decline in most democracies for decades: it has nothing to do with any "backdoor strategy" by British Conservatives. Particular circumstances can make things worse: Labour voters abstained in droves from the 1998 Welsh Assembly elections after Mr Blair's (cynical) attempts to gerrymander an internal leadership contest. In general, however, falling turnout has bigger causes: weaker loyalty to parties; less faith in the ability of conventional politics to deliver change; more interest in promoting special causes, be they greenery or foxhunting, outside the parliamentary system. Is this "apathy", or even bad? Not necessarily: Pippa Norris, of Harvard University, has hailed the rise of a new breed of "critical citizens" who feel that existing channels of participation fall short of democratic ideals and want to reform them.

When Mr Blair makes his big speeches, there usually comes a moment when his inner eye glimpses the New Jerusalem. His outer eye moistens. His voice trembles. Is he faking it? It is impossible to say. And it makes no more sense to accuse him of it than it would to accuse Olivier of faking Hamlet. Actor and politician deploy the skills their respective crafts require. But voters need not pretend that they see the New Jerusalem too. Indeed, their duty leans the other way. Given what they know about the mixed motives of politicians, and about the unintended consequences of even the best-intentioned of policies, they would be mad to suspend their disbelief. If this is a counsel of cynicism, so be it.

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Agriculture

This time it's the pigs

Feb 22nd 2001
From The Economist print edition

WHEN it comes to nasty animal diseases at least, the British government seems prepared to learn from history. The first case of bovine spongiform encephalopathy was detected in 1986. It was not until two years later that the government banned the feeding of cattle to cattle, which was what was reckoned to have spread the disease; and it was the EU, not the British government, that banned the export of certain cattle in 1989.

On February 19th, the first cases of foot-and-mouth disease for two decades were discovered in pigs in an abattoir in Brentwood in Essex. On February 23rd, the British government imposed a ban on the export of all milk, meat and livestock products. The European Commission has imposed its own ban on such exports until March 1st.

Not that this outbreak looks anything like as worrying as BSE. Foot-and-mouth is a highly infectious viral disease which affects cattle, sheep, pigs and goats, causing blistering on hooves and mouths, and leading to loss of appetite. It hits farmers' incomes; but unlike BSE, it does not threaten people.

The abattoir, as well as several farms in various counties with animals suspected of carrying the disease, have been put in quarantine. Ministry of Agriculture and Fisheries officials are trying to trace movements of cattle over the last weeks to track down the outbreak of the disease at source.

The last major outbreak of foot-and-mouth was in 1967. Some 442,000 animals were slaughtered, at a cost of £150m (£1.6 billion at today's prices).

The government has offered 100% compensation for farmers whose animals will have to be destroyed. But that will be small comfort to those farmers now bracing themselves for yet another period of uncertainty, sales forgone, and lost markets that may be hard to recapture.

The National Farmers' Union estimates that farm incomes have fallen by 72% since 1995. Pig farmers have been badly hit in recent years by the combination of falling prices and the high pound. And in the last year an outbreak of swine fever and a winter of floods have particularly affected them. The swine fever led to the slaughter of 12,000 pigs and a temporary ban on exports. The unfortunate pig farmers are likely to bear the brunt of this new outbreak of foot-and-mouth. The best they can hope for is that the source of the outbreak is isolated quickly.

It may all turn out all right. The men from the ministry can point to a small outbreak of foot-and-mouth in 1981 which they acted on quickly. That time, the disease barely spread. By applying the same methods again, they are hoping that they can control this outbreak equally efficiently. So are the farmers.

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Millennium Dome

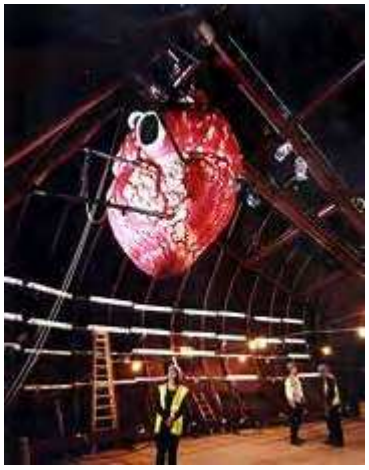
Dust to dust, lice to lice

Feb 22nd 2001
From The Economist print edition

The contents of the Millennium Dome are to be sold at auction. Who wants them—or it?

IT IS a familiar and a sorry tale. A person or a business dies, and the junk they have amassed is sold off to asset-strippers and carpet-baggers, enticed by the whiff of misfortune, as another humble dream turns to dust. In the case of a four-day auction to be held in Greenwich next week, the junk includes some outsize pubic lice, and the dismembered parts of a giant human body. The defunct building in question is the ill-starred Millennium Dome.

Reuters



But would it match the curtains?

Anyone whose curiosity or conscience were aroused too late to make it to the Dome whilst it was still operational can now see what's left of it for £5, the price of an auction catalogue. The quirkiest stuff, such as the lice, will be sold on February 27th, followed by a mass of catering, retail and technical equipment, including an 80-foot illuminated lighthouse. After the Dome's wildly optimistic initial visitor projections, its management is sensibly wary of big numbers; David James, the Dome's fire-fighting chairman, says he will be happy if the auction raises a modest £4m.

Such an end to successive governments' dreams of creating the greatest show on earth would be ignominious at the best of times. But it is particularly so because, as it turns out, ministers are still open to offers for the Dome itself. For the second time, a planned sale has unravelled: Legacy, a property consortium, which wanted to turn the Dome into a high-tech business park, has lost its status as the government's "preferred bidder". More of the valuable land in which the structure sits is now likely to be included in the package, so the eventual price should exceed the £125m which had been agreed. Ominously, John Prescott, the deputy prime minister, who is not best-known for his business acumen, has taken charge of the competition.

So the government is in danger of going into an election campaign with the Dome standing empty, as difficult to sell as it proved to run. This is fortunate for William Hague, who enjoys deploying the Dome as a metaphor for Labour's (alleged) vacuity and fiscal ineptitude. Even a disused Dome will cost around £600,000 per month in basic maintenance.

But the good news is that, according to Mr James, all future costs should be covered by the last tranche of lottery money the Dome received last year. Mr James says that the decision to keep it open until the end of the year, rather than closing it last September, has saved between £40m and £100m. But politically, even an early demolition would have been preferable for the government than going to the polls with an unsold Dome on its hands, a moth-balled monument to its hubris.

According to Pierre-Yves Gerbeau, the Frenchman who took over as chief executive last February and is widely credited with salvaging some of the attraction's honour, doubt over the site's future means that even the auction should be reconsidered. Mr James says that nothing is being sold that any bidder for the Dome could possibly want. But Mr Gerbeau, who has a plan to turn the building into a "global entertainment venue", is worried that the sell-off could jeopardise schemes such as his.

Even if the auction makes financial sense for the government, it might ensure that the Dome's misfortune is remembered in perpetuity. The motives of anyone who purchases a six-foot hamster or a mechanical seagull built from kitchen utensils can only be guessed at. Henry Butcher, the firm of auctioneers, describe the sale as an opportunity to acquire "a piece of history"; Derek Sadler, who is overseeing it, hopes it will attract some boisterous City types. There is certainly a market for intentionally

tasteless, “kitsch” household objects. But Dome debris could suffer a fate worse even than ironic derision in trendy London pads—as part of the ghoulish trade in disaster memorabilia, circulating illicitly on the Internet.

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Regional development

Tin men

Feb 22nd 2001 | SOUTH CROFTY, CORNWALL
From The Economist print edition

In Cornwall, the old economy is making a comeback, much to the horror of the new economy

MINING used to be Cornwall's staple industry. The Romans dug for tin here, and at one time or another there have been about 2,000 operational tin or copper mines scattered throughout the county. Today, the landscape is still littered with the gaunt ventilation shafts of mines past, but not present. For the last tin mine closed down in 1998, by which time, with the collapse of the industry, Cornwall had officially become the poorest county in England. Tourism is now Cornwall's biggest earner, and the profusion of mining "heritage sites" testifies to the fact that to the local planners and bureaucrats mining has become exactly that—part of Cornwall's heritage.

But now everyone is going to have to think again, because the last mine to close, South Crofty, at Pool, near Redruth, has just re-opened. A new company, Baseresult Holdings, has been formed to start up production again. Having just bought the mine at the beginning of the month, Baseresult promises to begin extracting tin by the end of 2002. And if South Crofty can be made to turn a profit, Baseresult says that there is nothing to stop it clearing out the tourists and starting up some of Cornwall's other disused mines.

The news has been met with a mixture of surprise, delight and horror. Surprise, because everyone assumed that tin mining in Cornwall had long gone the way of the typewriter. Delight, because hundreds of former miners are looking forward to working in the industry again; Baseresult promises to employ 200 people within two years. And horror by the local planners, particularly the South-West Regional Development Agency, brought in by the government to regenerate the area. The RDA had mapped out a smart, eco-friendly, high-tech, fully wired, post-industrial future for Cornwall, and dirty tin mines were definitely not part of "the plan". And they have been anything but helpful to the ambitious directors of Baseresult.

So how has Baseresult managed to persuade investors to stump up the substantial amounts of cash needed to kick-start the revival of tin mining? After all, this is an industry that barely made much money even before the price of tin collapsed overnight in 1985. This was the final blow to the mining industry in Cornwall, and the remaining mines began to close soon afterwards. But Kevin Williams, the new managing director of South Crofty, argues that their business plan is not dependent on the price of tin rising again. Rather, Baseresult hopes to make money by introducing more efficient working practices and new extraction techniques.

Mr Williams points out that South Crofty is a rich mine, with a ratio of 1.5% tin to ore, as against about 0.8% at other local mines. And the mine could still have a life of 80 years, during which time some 160,000 tons of tin could be extracted. That would have a current market value of £575m. The tin from South Crofty is a concentrate and will be exported to smelters in East Asia. As for working practices, Mr Williams says that he will introduce a six-day working week in three-week shifts, with the fourth week off. He claims that this will produce a straight 20% increase in production for the same fixed costs. On the technical side, the tailings (waste) will be disposed of underground at the mine, and there are plans to build a waste-to-energy recycling plant on the site as well.

Mr Williams argues that even though mining has been going on for so long in Cornwall, there is still more tin underground than has ever been brought to the surface. And if the new mining techniques work at South Crofty, there is no reason why they should not work elsewhere. Mr Williams maintains that "this is the start of Cornwall's future mining industry." There will be enormous start-up costs involved, mainly in pumping out 5m cubic metres of water with which the mine was flooded in 1998. But, as Michael Pusey

of the local chamber of commerce puts it, if Baseresult can make South Crofty profitable again, good luck to them.

But that does not seem to be the view at the RDA. At the end of last year, the RDA put in a £100m plan to redevelop the run-down Pool, Camborne and Redruth area, and the 60-acre South Crofty site was in the middle of the proposed area. “The plan” involved the usual mixture of business, leisure, housing and heritage. The RDA claimed that a working mine, especially one with a waste incinerator on site, was “incompatible” with its “strategic vision of a 21st century community”. At one point, the RDA threatened a compulsory purchase order of the site to prevent Baseresult getting its hands on it. Officials claim that private investors will be put off by the prospect of living and working cheek by jowl with a dirty, smelly tin mine. To say nothing of the lorries.

Even Baseresult admits that the mine is an “eyesore”, and there is legitimate concern about the environmental impact of the proposed reprocessing plant. But if locals have some doubts about Baseresult’s scheme, they are even more sceptical about the chances of the RDA ever coming up with anything more than “plans”. Despite the promise of high-tech jobs, which every other region in England wants as well, locals point out that although there is a line connecting the Goonhilly satellite station to the rest of the country, broadband communications are not available in Cornwall. Mr Pusey says this is “like having a motorway with no junctions on it”. And Cornwall’s transport links to the rest of England remain poor.

So people tend to have more faith in the very real activity at South Crofty than the more remote plans of the RDA. And the local view will weigh heavily in the balance in the weeks to come as Baseresult and the RDA try and work out some compromise between the demands of the (new) old economy and the promise of the new economy.

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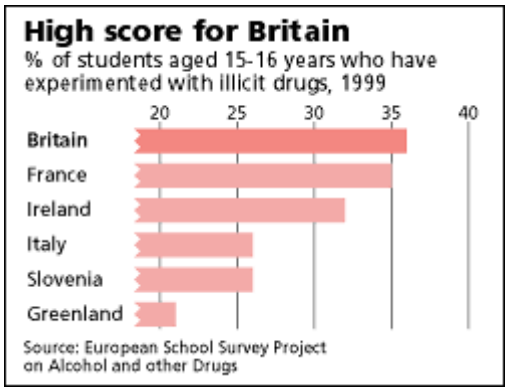
Cool Britannia's cold turkey

Feb 22nd 2001
From The Economist print edition

ANOTHER week, another burst of collective breast-beating at the state of British youth. A report, from the crisply named European School Survey Project on Alcohol and other Drugs, found that Britain's teenagers are without European peer when it comes to consuming vicious substances. In a survey of 15-16-year-olds, the tearaway Brits admitted to smoking more at a younger age and experimenting with more drugs than any of their European counterparts (see chart). Only the Danes beat them to the top spot on under-age drinking.

Parents, schools, governments, history, culture and even geography (too far north, too much spirit-drinking) were blamed in the lavish press comment on the report. Puritanical continental youths were interviewed approvingly. Something, it was agreed amid the splutters, must be done.



Really? This teenage dissolution is the flip side of a coin that Britain has come to value—the idea that it is the coolest place in Europe, a magnet for the continent's young people and the focus of the youth-culture industries of which the government is so proud. This week's London Fashion Week, which handed its biggest award to the professionally weird Alexander McQueen, is a fine example of Britain's vaunted hipness.

Young Europeans do not come to Britain for its museums. They come because the night-life is so much better than in any other European capitals. And the reason Britain has so many clubs that stay open all through the night, deep into the morning, is that so many people have taken enough drugs to dance for 12 hours. Clubs feed into the music business, which feeds into the fashion business, which all go to making Britain even more attractive to foreign youth.

High is hip, whether you like it or not. And if you don't, it doesn't matter very much, because there's nothing you can do about it.

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A message from the past for Baghdad

Feb 22nd 2001 | CAIRO
From The Economist print edition

AP

Saddam Hussein may have gained the most from last week's American and British air strike. How much do his people gain from the no-fly zones?

Get article background

TEN years after the Gulf war, the United States and Iraq are again locked in struggle. The cast of characters looks strangely familiar. But this time America's military strength is proving a poorer match against Iraqi posturing. Of the nearly 40 nations that joined America in the coalition to oust Iraq from Kuwait in 1991, only Canada and Kuwait have voiced open support for the American-British bombing, on February 16th, of five air-defence sites near Baghdad.

The collapse of the alliance owes little to sympathy for the Iraqi regime. Most Arabs see Saddam Hussein as a reckless bully. But the plight of Iraqis besieged by UN sanctions, the skill of Iraqi propaganda in linking their suffering with Palestinian suffering, and Iraq's growing power to bestow generous rewards on sanctions-busting suitors, have combined to create a powerful momentum.

In recent months, Iraqi diplomats have gone on the offensive. They have successfully exploited Arab fears of a newly aggressive Israel, and the general weariness with sanctions, to forge better ties both in the region and outside it, with such countries as India and South Korea. Scheduled flights now arrive in Baghdad from several Arab capitals. Egypt and Syria claim that their new free-trade deals with Iraq will triple the value of their trade to $2 billion and $1 billion a year respectively. Other countries are queuing up for rewards—Iraq's oil reserves are, after all, second only to Saudi Arabia's.

Increasingly, oil revenues are slipping into Iraq through holes in the UN embargo. It is reckoned that since November, Iraq has largely succeeded in getting customers to pay an average 40 cents surcharge on every barrel of oil lifted, generating $500,000 daily in cash outside the official UN-administered oil-for-food programme.

Since November Syria has joined Jordan and Turkey in raking in money from Iraq's illicit oil. With 100,000 barrels of oil a day now flowing across the border, Syria can raise exports of its own oil by a similar amount. Asked if this is a breach of sanctions, Syrian officials coyly reply that the Iraqi oil is a gift. Nothing in the UN resolutions, they say, prevents Iraq from giving away the stuff.

Colin Powell, America's new secretary of state, will face tough questioning on his Middle East tour this weekend. Egypt's president, Hosni Mubarak, has already said bluntly that last week's raids did nothing but "complicate matters", and that Iraq no longer represents a threat. Jordan called the bombing illegal. Saudi Arabia, which is increasingly embarrassed by public concern over America's use of air bases in the kingdom for launching its attacks, condemned the air strikes, reiterating its

support for Iraqi sovereignty. Syria's vice-president denounced the bombing as an attempt to sow discord among Arabs at a time when Israel is punishing the Palestinians.

Much of the Iraqi opposition-in-exile—though not the groups favoured by America—also voiced unease. The Higher Council for the Islamic Revolution, based in Tehran but the most active opposition group in the Shia south of Iraq (the region supposedly protected by the no-fly zone), roundly condemned the raids. The action, said the group's leader, Muhammad Baqer al-Hakim, made the Iraqi people "victims of a power struggle between the United States and the Saddam regime".

Iraq's foreign minister is due to resume talks with Kofi Annan, the UN's secretary-general, next week. But if he had had it in mind to show flexibility, he can now claim a pretext for his government continuing as cussed as ever. This leaves Iraq's neighbours in the awkward position of having to maintain, or pretend to maintain, the embargo, while both their feelings and their pockets tell them it is time for the sanctions to end.

How dangerous? How protective?

Mr Powell will reply to his Arab critics that the decision to bomb the radar sites was justified by the increased danger to American and British pilots patrolling the no-fly zones. He may also argue, as British officials have done, that the raids, which killed two civilians, were "humanitarian" since the patrols protect ordinary Iraqis from Mr Hussein's savagery. But this argument, at least in southern Iraq, is questionable.

America, Britain and France introduced the no-fly zone over the northern quarter of Iraq in 1991. The Gulf war had ended, but the Kurds, who live in the north, were in mortal danger from Mr Hussein's wrath. The patrols helped to create a Kurdish "safe haven", which endures to this day. The southern no-fly zone, however, has done much less to help the Shias and marsh Arabs it was created to protect in 1992. It may save them from aerial attack but not from the Baghdad regime's repression by tanks, artillery and helicopters.

Nonetheless, America and Britain justify the legitimacy of the no-fly zones with Security Council resolutions that call on the Iraqi government to stop persecuting its people. Yet these resolutions make no mention of any flight-bans, let alone mandate the use of force to maintain them. France, increasingly uncomfortable with America's and Britain's unforgiving policy on Iraq, dropped out of the patrols altogether in 1998.

Since then, the Iraqi army has taken to firing pot-shots at the aircraft overhead. The intensity of these shoot-outs rises and falls, depending on the mood both of the pilots and their Iraqi adversaries. In theory, the rules of engagement allow the pilots to fire only in self-defence. In practice, they have defined self-defence to include punishment bombings after any Iraqi challenge to their authority. By simply switching on radar, or firing a single salvo from an anti-aircraft gun, the Iraqi army can bring down a hail of bombs on anything deemed threatening, from command bunkers to radar stations, and even anti-ship missiles.

American defence officials describe last week's bombing as retaliation for aggressive Iraqi behaviour over several weeks, rather than any specific incident. The Iraqis have improved their anti-aircraft defences and use them more assertively. Their radar has been upgraded, with Russian help, and they are building a fibre-optic communications system, apparently of Chinese design, which was one of the targets of the raid. The fibre-optic cabling was making it harder to listen in to the Iraqi signals. In addition, the Iraqis have learned from the Serbs how to confuse western aircraft by switching different radar installations on and off in rapid succession.

These developments point to an escalating challenge, not to an immediate danger. Iraq does not yet have the ability to target western aircraft accurately. "They are more or less launching their anti-aircraft missiles at random, though if this goes on, they will be successful sooner or later," commented Andrew Brookes, a former Royal Air Force officer now on the staff of the International Institute for Strategic Studies. So far, they have not scored so much as a near-miss.

America and Britain, on the other hand, have scored quite high. In 1999, for instance, America conducted more bombing raids on Iraq than it did on Yugoslavia during the NATO air campaign that year. The frequency of the bombardment has inevitably resulted in increasing casualties. Iraq is suspected of exaggerating the figures, but UN officials have confirmed many of the hundreds of civilian deaths it has claimed. Even when the bombing does not kill anyone, it can disrupt the distribution of humanitarian supplies, and on one occasion it interrupted the export of the oil that pays for them.

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Bahrain

Your kingdom for our rights

Feb 22nd 2001 | MANAMA
From The Economist print edition

Yes, a Gulf country can make a real stab at democracy

THE 400,000 citizens of Bahrain, a prosperous island emirate in the middle of the Gulf, cannot believe their luck. Their country, a mere few months ago one of the more efficiently oppressive of Arab states, has leapt to being the most liberal.

EPA

An unusual pursuit

The tale goes like this. For a quarter of a century, the island stifled under the harsh rule of a weak emir and his wily brother, the chief vizier. When the emir's son came to power in 1999, it was assumed that he would be as weak as his father. But the new emir scrapped censorship, emptied the prisons, publicly embraced his father's foes, invited exiles to come home, and issued a national charter to turn the country into a European-style constitutional monarchy. Last week, a referendum on the charter won a 90% turnout of voters (including women, for the first time) and 98.4% approval.

It is as if "a genie came and granted our wish," says a bemused newspaper editor, who, like one Bahraini male in ten, has done time as a political prisoner. "The people are very, very happy, but are afraid they may wake up from this dream."

Yet it appears to be no dream. In the few days since the referendum, the island's ruler, Sheikh Hamad bin Issa al-Khalifa, has repealed a 1974 law that allowed the police to throw suspects in jail without charge for three years or more. He has abolished state security courts, ordered that anyone ever fired from a state job for dissent be rehired, and told Bahrain's 10,000-odd Bidoons—residents who have remained stateless despite generations on the island—that they will be granted citizenship.

In moving so quickly, Sheikh Hamad has not only made himself truly popular. He has also pulled the rug from under a singularly embittered and entrenched opposition movement. In 1994, some 25,000 Bahrainis signed a petition demanding reforms. In the following year, 38 people died in violent clashes with the police, and up to 15,000 were arrested. Unrest had simmered ever since.

One reason for the opposition's strength is that Bahrain has a relatively long history of political activism. Its first experiment with democracy, which lasted between independence from Britain in 1971 and the suspension of parliament in 1975, was marked by feisty debate, which included demands to curb the ruling family's power.

Also, unlike other Arab states in the Gulf, a majority of Bahrain's people are Shia Muslims, whose prime loyalty is often to their religious leaders. The al-Khalifa family, rulers for 218 years, are Sunnis, in the mainstream of Islam, but accounting for only 30% or so of Bahrainis. The 1979 revolution in Iran caused a ferment among Bahrain's Shias. Not only the local Sunnis but also some of Bahrain's powerful allies—including both its puritanically Sunni neighbour, Saudi Arabia, and the United States, whose Gulf fleet is discreetly based here—feared the Islamist "infection" might spread into Bahrain.

It is no coincidence that the reform comes when Iranian-Saudi relations are warming. Yet even Bahraini sceptics believe that Sheikh Hamad's motives are home-grown. The less charitable claim that he simply wanted to secure his family's future. "He granted us our rights, but we have granted him kingship," says a teacher who was dismissed for signing the 1994 petition.

Others point to the economic stagnation of the past decade. Bahrain has little oil, and relies more on services such as offshore banking and tourism. It is rich enough to have attracted some 200,000 foreign workers, but unemployment among locals tops 15%. Without the political stability the reforms may bring, badly needed foreign investment might have stayed away.

The prevailing belief, however, is that Sheikh Hamad has a genuine desire for progress. The test of this will come in the next few months, as the country prepares first for municipal voting and then for a general election. Calls for “responsibility” and “maturity” in local editorials suggest an underlying anxiety that radicals—particularly religious ones—may abuse their new-found freedom. But few seem overly concerned that Shia clerics may be a dominant force. “They won’t go and ban alcohol. We make too much money from being the closest bar to the world’s thirstiest country,” chuckles a Bahraini, meaning Saudi Arabia.

There is also the question of those, both in the al-Khalifa clan and outside, with vested interests in the old, opaque way of managing the island. Many Bahrainis hint that their last doubts about the government’s intentions will vanish only when Sheikh Hamad’s uncle, who has been prime minister since independence, leaves the stage. So far, the emir has handled his uncle graciously. However, the appointment of the popular, Cambridge-educated crown prince, Sheikh Salman bin Hamad, to lead the committee that will implement the charter suggests that the exit light is switched on.

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Zimbabwe

Africa's own Mussolini

Feb 22nd 2001 | HARARE
From The Economist print edition

Something eerily like an African version of fascism is taking shape

WHEN Zimbabwe's opposition leader, Morgan Tsvangirai, was formally charged with inciting violence on February 15th, the way in which President Robert Mugabe hopes to maintain his grip on power took recognisable shape. Most of the components of an African version of fascism are now in place in Zimbabwe.

Last September, Mr Tsvangirai incautiously said: "We ask Mugabe to go peacefully. If he does not, we will overthrow him violently." The crowd of 20,000 roared its approval. He quickly explained that "we" did not mean his own party, the Movement for Democratic Change (MDC); Mr Mugabe's policies, he said, were in danger of causing a general explosion of anger among Zimbabweans. No matter. The Mugabe government seized on the phrase as a way to neutralise Mr Tsvangirai. This month it took the popular former trade-union leader to court. If found guilty, Mr Tsvangirai could face a prison sentence of up to 20 years—and anything more than six months in jail would render him constitutionally ineligible to run for the presidency. Two other senior members of his party face similar charges.

While the political opposition is being pushed into a corner, 77-year-old Mr Mugabe is also turning his attention to Zimbabwe's hitherto independent judiciary. The Supreme Court had already been invaded late last year by 300 of Mr Mugabe's "war veterans", the (supposed) old hands of the country's independence campaign. This month Chief Justice Anthony Gubbay resigned, after being told that the government would not guarantee his safety. Mr Mugabe has appointed four new, friendly judges to another judicial body, the High Court, some of whose existing members have been threatened with the invasion of their homes.

In recent months, the state-run part of Zimbabwe's press has accused the MDC of carrying out violent attacks on Mr Mugabe's ruling ZANU-PF party. The charges are not credible: the MDC has been admirably restrained in its reaction to the state's violence. But the newspaper clippings will be handed out as evidence that Mr Tsvangirai has encouraged criminal acts.

Mr Mugabe's campaign against the still free parts of the press includes last month's bombing of the popular *Daily News*. This week the government expelled two foreign journalists. A team of state security agents broke down the door of the home of the BBC's correspondent, Joseph Winter, terrifying his wife and child and ensuring his swift departure. The other journalist, Mercedes Sayagues, who comes from Uruguay, says that the regime reminds her of Latin America's past military dictatorships.

A presidential election is due by April next year, and Mr Mugabe may call it sooner. He and his ZANU-PF party are pretty clearly setting out to entrench themselves in power. Pliable judges, a slavish state press, a bullying police force backed by those extra-legal "war veterans", and now the possibility that the opposition leader is about to be pushed into jail: it all adds up to something uncomfortably like the way Mussolini and Franco used to run their countries, not to mention those more recent Latin American toughs.

Never mind the unfortunate name of one of Mr Mugabe's closest helpers, the war veterans' leader, Chenjerai Hitler Hunzvi. Those supposed veterans are not the only organisation with a brownshirt flavour. The Central Intelligence Organisation, another extra-legal group, also bludgeons opponents with impunity. The police, supine when attacks are made on members of the opposition, are zealously efficient when taking action against that opposition. The army routinely patrols Harare's townships, and often beats up people on mere suspicion of supporting the MDC.

Military men hold powerful positions in the cabinet, parliament and state agencies. The top brass clearly

had a hand in arranging Zimbabwe's disastrously expensive involvement in the Congo war. The state media, orchestrated by the information minister, Jonathan Moyo, glorifies Mr Mugabe and vilifies his critics. The seizures of white-owned land are designed to win the support of Zimbabwe's peasants.

This is indeed an intimidating regime. Yet it has, as yet, held back from going all the way. Some are still able to defy it. The remaining four justices of the Supreme Court have refused to be bullied into resigning. The bombed-out *Daily News* has, against all the odds, gone on printing. Ms Sayagues tried to stay on to press a lawsuit challenging her deportation, but was obliged to leave on February 22nd. Mr Tsvangirai has repeated his warning that Mr Mugabe, by using violence, risks being violently overthrown.

It could be a historic moment. Mr Mugabe holds all the levers of force, and loudly uses the rhetoric of African nationalism. But there are people willing to stand up for the idea of democracy; and they seem to have the support of most Zimbabweans.

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Iran

Right v right

Feb 22nd 2001 | TEHRAN
From The Economist print edition

WHATEVER their differences, President Muhammad Khatami and Ayatollah Ali Khamenei, Iran's supreme leader, are both dedicated to protecting the Islamic republic. If Iran's leaders ignore the people's demands, said the president this month, "no military, legal or security force will be able to save the country." The supreme leader, it seems, may agree. At any rate, he is now endeavouring to rein back the most radical of his hard-right supporters.

This would be a change. Ever since the reformists won a handsome majority in last spring's parliamentary election, Mr Khamenei has allowed a free hand to the conservative judges who throw Mr Khatami's people into prison, and to the veto-wielding Council of Guardians which blocks reformist legislation. But Iranians are showing signs of being fed up with clerics who are not allowing the system to be reformed, even by so conciliatory an insider as the president. Mr Khamenei, who is a statesman as well as a traditionalist, may have concluded that there was a danger of clerical contempt for the people being paid back in kind.

This could explain his decision to cut down to size the most openly contemptuous of these clerics, Ayatollah Muhammad Taqi Mesbah Yazdi. From the Haqani seminary which he runs in Qom, Mr Yazdi argues that religious government does not need popular support to achieve legitimacy. This is an impolite riposte to the "Islamic democracy" which Mr Khamenei claims to support. Mr Khamenei disapproves of Mr Yazdi's intemperate language towards Islamic "modernisers", and resents his influence over radicals in the judiciary, many of whom are Haqani alumni.

People discerned Mr Khamenei's hand behind a blistering interview this month by Muhammad Mehdi Faqihi, the editor of *Entekhab*, a newspaper friendly to the supreme leader. Mr Faqihi attacked the proponents of "petrified thinking" in Islam—and a former colleague confirmed that he was referring to Mr Yazdi. Taha Hashemi, *Entekhab*'s owner and an ally of the supreme leader's, was more explicit. Mr Khamenei, he said, is unhappy with the excesses of some judges. He went on to say that observing the will of the people is vital "for the survival of the revolution". He himself, he promised, would vote for Mr Khatami in June's election.

If, that is, the president decides to seek re-election. Complaining that he has been prevented from doing his job in his first term, Mr Khatami has been showing reluctance to take on a second. This has rattled the supreme leader. Despite Mr Khatami's hesitant approach to reforms, he remains by far the country's most popular politician. A sulky withdrawal from office would provoke not only disappointment among his supporters, but their anger too.

So, having spent the past four years trying to box in the president, Mr Khamenei is now citing the national interest to persuade him to stand for re-election, while calling on his own hardliners to tone down their onslaught. The patriotic Mr Khatami may be susceptible to this argument, but the hardliners are not. Having got their teeth into Mr Khatami, they will not let go without a fight.

In the past two weeks, judges have arrested or summoned to court well over a dozen reform-minded journalists, civil servants and politicians, among them one of Mr Khatami's senior officials. The Council of Guardians has vetoed as "un-Islamic" a budget freeze proposed for the aggressively conservative state-owned broadcasting system. On February 15th, for the first time in several years, three miscreants were given a public whipping in a square in central Tehran. A senior judge, a Haqani alumnus, claims to have discovered a plot between reformists and a dissident ayatollah to defame a conservative former president. On February 14th, 1,000 of Mr Yazdi's supporters met in Qom to demand *Entekhab*'s closure.

Can Mr Khamenei quell the diehards? If the supreme leader ever needed the inspirational authority of his predecessor, Ayatollah Ruhollah Khomeini, it is surely now.

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Africa's great black hope

Feb 22nd 2001
From The Economist print edition

Seven years have passed since the end of apartheid. Who has gained what? asks John Grimond

AP

CASSANDRA would have been stumped by South Africa. How easy it was, in the long, dark days of apartheid, to predict catastrophe, only to be assured by South African boosters that all was well, and by apologists abroad that constructive engagement would in time make all well. The voices of complacency were wrong. Yet so too were those that foretold a bloodbath. Of all the horrors of the 20th century, South Africa's was unique: it did not happen. Against that achievement, any subsequent shortcomings of the country's new rulers should perhaps be judged tolerantly.

The catastrophe that did not happen was not, however, the end of the story. Another catastrophe is stepping in to take its place, and this one will not be averted by anything less than a miracle. It is wrought by AIDS.

The shadow of AIDS hangs over almost every aspect of South African life. It is not visible yet, at least not to most people, who see South Africa as a society fizzing with vitality. It is also a country of extraordinary beauty, with mountains, beaches, veldt and forests—never mind the animals and birds that inhabit them—that would be hard to match anywhere. Even the squatter camps that litter the flats below Cape Town are set in the most spectacular surroundings, restless sea on one side, motionless mountains on the other. But already people in these camps are dying of AIDS. If the low forecasts are correct, the disease will send "only" 4m South Africans to a premature grave in the next ten years. If the pessimists are right, it will have killed as many as 6m by 2010, when the epidemic is expected to reach its peak. That would mean that AIDS would have claimed as many lives as Hitler's Holocaust, in South Africa alone.

By international standards, and certainly by African ones, South Africa is not poor; it is a middle-income country. But even a rich country would find it hard to deal with an AIDS epidemic on the scale of this one. As it is, the government has plenty of other problems to contend with. The "middle-income" description disguises extremes of wealth and poverty that are rivalled only in Brazil: South Africa is really both a first-world and a third-world country, the rich part mostly white, the poor part mostly black. The government, quite properly, wants to reduce this difference, and it is in a hurry.

Catching up

That is partly because it started late. South Africa had to wait until 1994 for democracy, and the chance it brought that the majority's wishes would be listened to. Most of the rest of sub-Saharan Africa had had 30 years or more of self-government by then. For the black,* Indian and Coloured (mixed-race) population, that was not just an extra 30 years of suffering and oppression; it was 30 years of racially skewed government, whose legacy in terms of uprooted families, neglected education, malnourished children and a general misallocation of spending will take decades to overcome.

Fortunately, the long wait for freedom brought benefits as well as costs. It provided time in which to see how other, similar countries had coped with self-government. And it brought goodwill, not least because South Africa was blessed with the leadership of a statesman of heroic proportions.

Twenty-seven uncompromising years in prison would alone have been enough to ensure the world's admiration for Nelson Mandela. Yet he went on to live up to

almost all expectations, however unreasonable. Lucky the country whose president, after suffering so much, could publicly welcome both the prosecutor and the judge who had sent him to jail at the Rivonia trial in 1964. The spirit of generosity seemed to characterise not just Mr Mandela but the new South Africa as a whole.

Exchange rates
February 12th 2001

$1=	7.82 rand
1=	7.27 rand
£1=	11.36 rand

Thus cursed, thus blessed, that new South Africa is almost seven years old. Not surprisingly, much has changed in seven years, and not just at the southern extreme of the continent. Too much of the change farther north, though, has been bloody and impoverishing. Fighting has ravaged one country after another, engulfing the centre of Africa. And the most terrible genocide of the second half of the 20th century has taken place in Rwanda. Most recently, South Africa's northern neighbour, Zimbabwe, has abandoned the rule of law as its ageing autocrat, Robert Mugabe, has taken ever more desperate measures in his efforts to cling to power. Never mind that some good changes have taken place too. The general direction in Africa has been down.

South Africans are well aware that all is not well to the north, and that realisation contributes to the sense that their own country is on trial. High hopes, after all, attended its transition to democracy. It has huge mineral wealth, roads, railways, ports and connections to the rest of the world unrivalled in Africa. No wonder, therefore, that as one country after another adds to the general sense of disillusion, more and more seems to be expected of South Africa. Africans flock there. It has become the continent's great black hope. Yet there is also fear—fear of AIDS, of unemployment, of a future under a different president, Thabo Mbeki, without the reassuring Mr Mandela, fear, in short, of failure.

This survey will offer a progress report. It will invite you to imagine that you had been put in charge of South Africa seven years ago, as white rule gave way to democracy, and will presumptuously assume that you would have chosen to try to:

- Promote the material, educational and political advancement of those who were for so long denied their rights by apartheid.
- Manage the economy responsibly, to provide economic growth and the jobs that come with it.
- Help South Africans of all colours to come to terms with the past.
- Keep the whites contented and, where possible, redress wrongs done to other minorities.
- Thus confound Cassandra and show that African countries are not all destined to go wrong.

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*In this survey, "black" is used to describe people of black African descent, though the ruling party describes them as "African", preferring to use "black" as a collective expression for all people of African, Indian and mixed-race origin.

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The bare necessities

Feb 22nd 2001
From The Economist print edition

Despite the government's efforts, too many South Africans still lack access to housing, water, land and other essentials of life

PARTS of KwaZulu-Natal may look like the Scottish borders and parts of the Western Cape may look like California, but this is Africa, and most South Africans are poor. In 1996—no up-to-date figures exist—57% were living in poverty. That, however, may have represented progress: black household incomes had risen by 9% in real terms over the previous five years.

The government says that, thanks to its efforts since 1994, some 9m more people now have access to clean water and about 1.5m more households have access to electricity. Moreover, it has built nearly 1m houses for people who had no formal shelter before. It has provided a free peanut-butter sandwich a day for every child at primary school, ensuring a minimum of nutrition. And it has introduced basic pensions for the elderly poor.

It can take some pride in these figures, even if they do not tell the full story. For a start, much remains to be done. More than 3m households (out of 10.7m) still have no electricity, and 8m people (out of 43m) still have no access to clean water. Moreover, too much of the water that is piped leaks away before it reaches the tap. Too much arrives contaminated, and too much is used wastefully because it is cheap for the rich and expensive for the poor (though the government is working on that).

One difficulty is that South Africa is, at least nominally, a federal state with nine provincial governments. Although seven of the nine are run by the African National Congress (ANC), which also dominates the national parliament (winning 266 out of the 400 seats at the general election in June 1999), they vary widely in competence and therefore in their ability to carry out national policy. The Eastern Cape, for instance, and Mpumalanga, both ANC-run, spent hardly any of their capital budgets for housing in the first six months of the past fiscal year.

A similar incapacity afflicts even parts of the national government, notably the Department of Health. It failed to spend 28% of its budget for hospital rehabilitation last year and, with its provincial counterparts, allowed 12% of its allocation for the country's nutrition programme to go unspent. In other words, thousands of children are not getting their daily peanut butter. Lots of pensioners, too, do not receive their pensions, either because of incompetence or because of theft by local officials. And though the government wants to increase the local authorities' spending by 15% over the next three years, it openly

recognises that they may not be able to make use of the money. “We must not assume that the [municipal governments] will actually function,” says the local-government minister, Fholisani Sydney Mufamadi.

In such circumstances, many South Africans will have to fend for themselves, perhaps by doing what their forebears have done for generations: farming. Some 46% of the population live in rural areas, and probably most of the urban 54% have strong ties to a village or country community. For all South Africans, therefore, the land is a matter of importance. Yet in the days of apartheid, it was largely denied to blacks, Indians and Coloureds: about 70% of the country—the most fertile and desirable areas—were reserved for the 15% of the population that was white. Indeed, if government-owned land was included, the whites owned 87%.

Righting past wrongs

South Africa’s new masters have taken a three-pronged approach to changing all that. Their aim is, first, to redistribute white-owned land on a willing-seller-willing-buyer basis or, where expropriation seems justified, to pay market-based compensation. Second, to reform the tenure system, particularly in the former “homelands” assigned to blacks. Third, to restore land to people, or their descendants, who were dispossessed of it in the 80 years after 1913, when the first discriminatory Land Act was passed. Some 65,000 claims were lodged under this restitution scheme before December 1998, the cut-off date.

Progress in each of the three programmes has been slow. Although the hope is to redistribute 30% of the country’s farmland by 2014, only 0.81% had been transferred to blacks by the end of last year. The mainly white farmers’ union, Agri SA, blames bureaucracy, pointing out that about 6% of the country’s farmland is sold each year to anyone who wishes to buy it, the government included. The mainly black National African Farmers’ Union says that most of this land is expensive and poor, and calls for expropriation. It has, it says, 23,000 members eager to farm commercially. But land has not been a political priority: the 837m rand assigned to it for the current year will not go far. Moreover, the government has decided that the rural poor should get no more in land grants than their urban counterparts get for housing. The consequent 15,000 rand per household does not buy much more than a hectare (2.5 acres) of good irrigated ground.

The tenure-reform programme has not performed much better. A badly drafted act in 1997 greatly strengthened tenants at the expense of owners. However, the ensuing grumbles have been trifling compared with those generated by the restitution programme, whose first four years saw the resolution of fewer than 50 claims, though the total has now risen to about 6,500. Such claims have been settled through the courts, a procedure involving legal standards of ownership that are hard to prove: tenure is often held communally rather than individually, and usually no title deeds existed at the time the land was taken. Moreover, even today there is much disagreement about whether land should be held by chiefs or by individuals.

This dispute divides many organisations, the ruling party included. Patekile Holomisa, the ex-chairman of the parliamentary committee on land affairs, is, for instance, at odds with many of his ANC colleagues, and at one with many members of the mainly Zulu Inkatha Freedom Party. He, like Mr Mandela, belongs to a branch of the Thembu royal family, and heads Contralesa, the staunchly patriarchal Congress of Traditional Leaders of South Africa.

The good news is that a speedier restitution process is now in prospect, after the settlement of a claim by the people of Chatha in a part of the Eastern Cape that was once the “homeland” of Ciskei. The settlement, last October, was reached not through a court of law but through an “indaba”—a talk-in or pow-wow—and the signs are that this will now become standard practice under the incumbent minister, Thoko Didiza. It holds out hope for the settlement of many more claims involving removals under “betterment” programmes, the name given by apartheid governments between the 1940s and 1970s to forced resettlements in “black” areas.

Perhaps 3.5m South Africans were forcibly displaced by their government between 1960 and 1982. Most of them are remarkably patient in awaiting compensation. There is some pressure for more radical measures, but much of it comes from black farmers, who simply want more land, not from the landless, who are largely unorganised. Article 25 of the constitution gives clear guarantees about property rights, which ministers are quick to point to when asked about the possibility of farms being expropriated, as they have been in Zimbabwe. And certainly, though some land encroachment takes place, no widescale invasion seems likely in South Africa. Even so, Zimbabwe has shown that land can stir strong emotions—

and can readily be used by demagogues as a racially divisive issue.

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Learning to cope

Feb 22nd 2001
From The Economist print edition

A more coherent education system is slowly taking shape

A RATHER more cheerful tale can be told about education, which accounts for a bigger share of the national budget than anything else: it will take 21% of government spending in 2000-01, or 5.7% of GDP. Not that spending alone can be considered a measure of educational success. If it could, the apartheid governments could have claimed a few gold stars: latterly, they used to spend almost 20% of the budget on education. The trouble was that about 85% of the total went on educating whites.

Reuters

Shall we watch TV instead?

The upshot is that today South Africa has some of the best state schools in the world, and some of the worst. Kader Asmal, the minister of education, says that 30% of the country's schools are not fit to be used; 40% do not have water; 50% do not have electricity. Still, wonderful results can be obtained even in the most wretched of premises, and often are. Elizabethfontein school in the Western Cape, for instance, can be reached only on foot or with a four-wheel-drive vehicle. Many of its pupils suffer from fetal-alcohol syndrome and none, until recently, had ever seen such a commonplace object as a mirror. Yet, thanks to the efforts of its principal, Mrs van der Vyver, it carried off the national award for progress in primary-school literacy last year.

Good teachers are essential to good education. Unfortunately, in its well-intentioned efforts to reorganise the system, the government has lost many good teachers while keeping many bad ones. First it chose to set national pupil-teacher ratios; then it offered generous incentives to teachers in overstaffed schools to leave, only to find that it was the most enterprising ones who went. The policy was overturned after it was challenged in court by Helen Zille, the provincial education minister in the Western Cape, but too late. In the past three years, her province has lost 8,000 teaching posts, and now faces an acute shortage of good teachers.

A second mistake was the government's decision to adopt an "outcomes-based" education programme. All teachers, recast as "facilitators of knowledge", were required to take part in a "constructivist revolution", partly based on the ideas of Lev Vygotsky, a Marxist psychologist of the early Soviet era. Fortunately, Mr Asmal, who took over as minister of education only in 1999, is trying to change the curriculum in favour of something more appropriate to the country's needs—to the fury of many in the ANC, not to speak of its allies in COSATU (the Congress of South African Trade Unions) and the main teachers' union. And he is having some success: the proportion of students—known these days in politically correct South Africa as "learners"—who matriculate from secondary school rose from 49% in 1999 to 58% last year. Unfortunately, some of that increase was caused by forbidding most of those who had failed papers the previous year to retake them.

The fault cannot all be laid at the government's door. This generation of South African youth is still infected by many of the ideas current among the "lost generation" of students, the ones who boycotted school in favour of opposing apartheid, often chanting "Freedom now, education later!" That slogan was replaced by "Pass one, pass all!", a demand that if one member of a class should make the grade, then all should be considered to have done so too. The result is that education in South Africa is often regarded as a right that comes without any special personal effort, or even without attendance at school.

Splendid in theory

South Africa compares splendidly with other countries in many education tables. UNESCO reckons that

133% (yes, really) of the relevant age-group attend primary school. Reality is all too often different. When Mrs Zille visited a school in her province not long ago, 700 out of the 1,300 pupils were absent, as were ten out of the 46 teachers. The experience was not unusual. Some children may be required to help at home, but too many stay behind to watch television, or simply wander round their township.

The general picture, however, is of good primary education, much more mixed secondary education, and even more troubled universities. The formerly white institutions, such as the universities of Witwatersrand and Cape Town, are excellent; several of the historically black ones are atrocious. The University of the North, for instance, which was one of the few universities for blacks under apartheid and a hotbed of opposition to the Nationalist governments that ruled from 1948 to 1994, “is deteriorating rapidly by the day”. It suffers from “total lack of leadership, policy, vision and direction; a succession of weak and ineffective management teams...low morale...racism...unbridled factionalism, personal hostility and self-interest” and a dozen other damning shortcomings. That, at any rate, was the judgment last September of Professor R.T. Nhlapo, who was asked by the minister to produce an independent report. Top of his list of possible remedial measures was to close the place down.

If that is, luckily, not the general picture, it is still fair to say that higher education is widely seen as an end in itself. University life brings a relatively comfortable existence, largely at the taxpayer’s expense. Arts subjects such as philosophy are still far more popular than maths or science. And the longer the process can be spun out, the better—whether or not fees are paid or exams passed. This hardly amounts to the training needed for a globalised economy.

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The endless assault

Feb 22nd 2001
From The Economist print edition

Violent crime threatens not just South Africans' security but the very basis of their society

WHAT is the value of a school, it may be asked, if it is constantly burgled, or if its pupils go in fear of being attacked on their way home? That is not an idle question for the people of Kuils River outside Cape Town, where five children aged between five and 12 were murdered within a month last summer. The crime wave that so terrifies white South Africans and visitors from abroad in fact inflicts far more suffering on the poor than on anyone else. It is, at present, a problem without a solution.

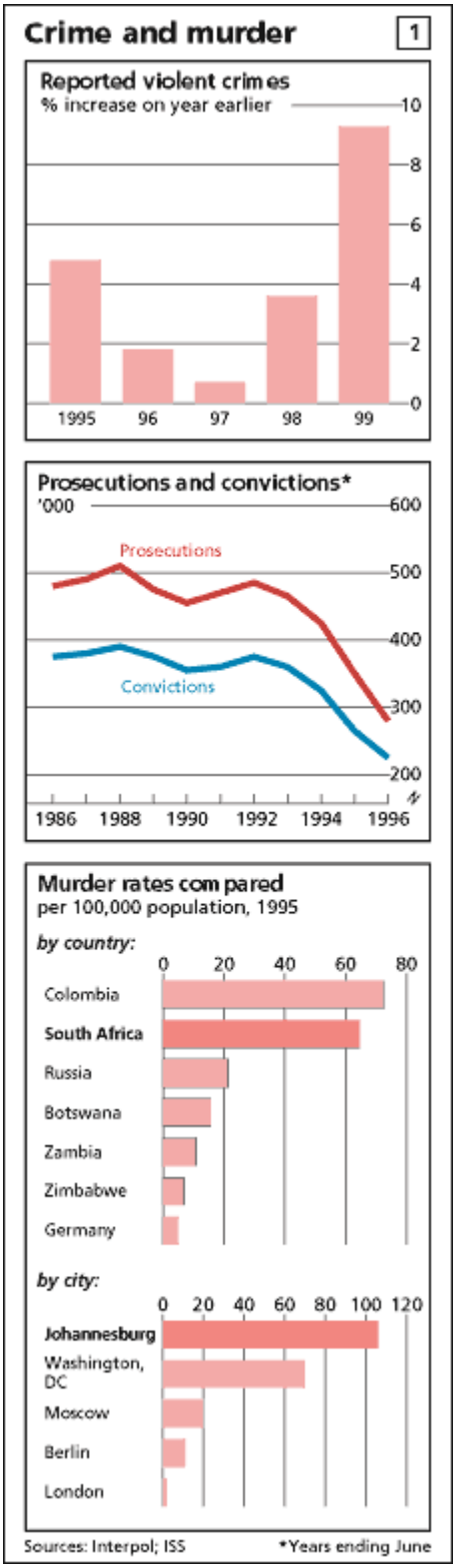
AP

But will the case ever get to court?

The number of crimes, especially rape, carjacking, serious assault, housebreaking and common robbery, has been increasing since 1996, and the trend has been sharply upwards since 1998 (see chart 1). Though the murder rate has been falling—thanks to a reduction in political thuggery—the rates for other kinds of violent crime have all been rising: in 1999, about a third of all reported crimes were violent, and the number had increased by over 9% on 1998.

Why should South Africa have become one of the most violent countries in the world? One answer is that it was always violent: apartheid was a system based on violence, whether it was a matter of forcibly uprooting people, herding migrant labourers into hostels or beating confessions out of suspects. Another is that much of the violence is alcohol-related, and here too, especially in high-crime areas like the Northern Cape, the legacy of the past may be partly to blame: the white farmers' practice of paying part of labourers' wages in the form of a *papsak* of wine encouraged a culture of drunkenness that persists to this day.

Mamphela Ramphele, once a black-consciousness activist, more recently vice-chancellor of the University of Cape Town and now at the World Bank, has other explanations for the violence that she says "is part of the everyday reality of the lives of children and adults in South Africa". Black men, she believes, were systematically humiliated by apartheid. It kept them subordinate (black men were commonly called "boys"). It undermined their role as protectors (their wives and children were often dumped in distant "homelands"). And frequently it prevented them even from providing for their families (ill-educated, many men were too proud to do menial jobs, leaving the women to act as bread-winners). The net effect was to rob them of their very manhood. Today, "their only escape from complete powerlessness is the control they exercise over African women and children."



Old habits die hard

The years of struggle did not help. Indeed, the defiance of authority that grew in the latter years of apartheid has continued, and with it even the old hatred of the police: about 200 police were murdered in 1999, roughly as many as in 1992-94.

Tourists can take comfort from the statistic that about half the country's murders are committed by people who know their victims. One study of crime in rural areas revealed that 72% of the victims of violent crime and over half the victims of vandalism knew the offender. It also revealed that 60% of the respondents in the survey had been the victim of at least one crime between 1993 and 1998.

Attacks on farms, especially in Gauteng, Mpumalanga and KwaZulu-Natal, have been growing in number, from 433 in 1997 to 809 in 1999; anecdotal evidence suggests even more in 2000. Often such attacks on white farms are violent, and unnecessarily so for the purposes of burglary. In 1999, they involved 137 murders, some of them committed by intruders who had deliberately awaited the arrival of their victims.

Martin Schönteich, of the Institute for Security Studies (ISS) in Pretoria, does not, however, think they were necessarily political, even if some are motivated by revenge.

What can be done? One problem is the quality of the police. Some are corrupt, many are untrained, more are under-equipped. About a quarter are functionally illiterate and 10,000 do not have a driving licence to allow them to get to the scene of a crime, even if they are lucky enough to have access to a car that works. The police may also be brutal, to put it mildly. In the three years to March 2000, they killed about 1,550 people—compared with the 2,700 the apartheid force killed in the 35 years to 1994.

Perhaps one reason why the police seem so trigger-happy is that they see the weakness of the criminal-justice system, which lost 500 out of its 1,800 prosecutors between 1994 and 1996. Criminals see it too. They know they are unlikely to be caught, still less convicted. Of the 2.2m crimes reported to the police in 1998, almost half were considered “undetected”, meaning that the evidence was insufficient or that the suspect had disappeared. Half a million more were withdrawn, leaving 524,000 cases that reached court. Of these, 203,000 resulted in a conviction. They did not always involve the most serious crimes. Nearly 88% of drink-driving cases reached court in 1998, and 86% of drug cases; but the rates for murder were 46%, for rape 45% and for carjacking just 7.5%.

The cost of crime to business and private individuals is huge—about 40 billion rand in 1996, according to a study that year. The only group to benefit is the burgeoning security industry, whose turnover has risen from about 1.2 billion rand in 1990 to 11 billion in 1999. The budget for the police this year, for comparison, is only about 15.5 billion rand.

The government is not oblivious to all this. That 15.5 billion rand for the police, although less than it might be, is over five times as much as it was ten years ago. A new elite force for investigation, prosecution and intelligence, known as the Scorpions, has recently been set up. Some fear that these relatively well paid police will demoralise the rest of the force, partly because they will be able to pick the most interesting and headline-grabbing cases to pursue. But they may help to reduce the number of cases that never reach court, or are thrown out on technicalities. So, too, it is hoped, will the appointment of Bulelani Ngcuka at the head of a new prosecuting authority. He is expected to fight for his staff and thereby raise their morale and effectiveness. Moreover, he will be fortified by a battery of new laws, mandating minimum sentences, tightening bail and so on. Yet there are no signs of the crime wave abating.

Moreover, the extent to which violence is now an everyday problem for many people, especially women, suggests that family life, and therefore society at large, is under threat of complete breakdown. Some 17-25% of women are said to be in abusive relationships; one woman is killed by her partner every six days. “Violence, particularly sexual violence, directed at women and children, tends to be the dominant form of communication to assert the right to claim the entitlements which the male body has been promised,” says Ms Ramphele. This may prove to be the most destructive of all apartheid’s legacies—and the most difficult to eradicate.

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The cruellest curse

Feb 22nd 2001
From The Economist print edition

AIDS makes most of South Africa's other problems seem trivial

FOR over a decade, South Africa has been a country in denial. The result is that it now has more HIV-positive people than any other in the world. It is at last coming to terms with the appalling consequences of this plague, yet its government remains, in the words of a top official in the international war against AIDS, "the most difficult country that we have to deal with anywhere".

EPA

And millions more to come

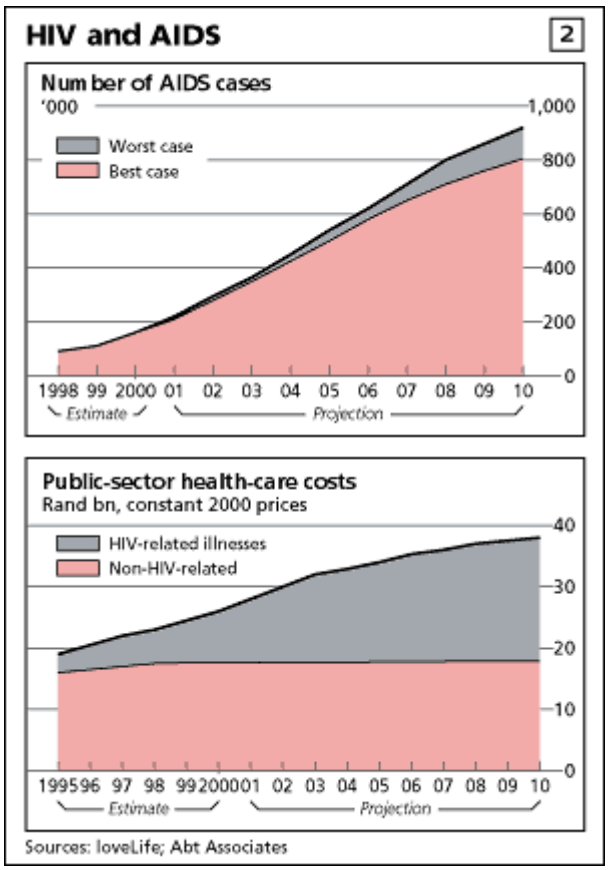
AIDS came later to South Africa than to many countries farther north; the first case to involve a black South African appeared only in 1987, and the epidemic did not really begin until 1993. Little is known for certain about how many people are now infected, and all forecasts involve some speculation. But the Ministry of Health reckons that 2.5m people are HIV-positive, and UNAIDS (the United Nations' AIDS body) puts the figure at 4.2m people—nearly a tenth of the population. A study for ING Barings last year predicted 8m infections by 2005. A study by Abt Associates, a Johannesburg consulting firm, forecast the number of deaths attributable to AIDS at 354,000-383,000 in 2005, rising to 545,000-635,000 in 2010. Average life expectancy is set to fall from 60 years to 40 by 2008.

Scarcely any aspect of South African life will be untouched by an epidemic of this size. The cost in terms of personal misery is unimaginable. Some of the other consequences can, however, be guessed at.

Since the young, and especially young women, are particularly vulnerable to AIDS, and since husbands and wives infect each other, South Africa will see a vast increase in the number of orphans: 2m perhaps by 2010, many themselves infected at birth. Traditionally in Africa, such children would be looked after by relations, but many South African families are already dysfunctional and, in any event, the numbers are likely to prove overwhelming.

This will put a huge strain on the extended families that do take in orphans—and bring a huge increase in the numbers of children living on the streets. Orphans are much more likely to commit crimes than other children. They are much more likely to join street gangs, play truant and escape any form of training. If they are also HIV-positive, they may well feel they have no stake in society, making them all the more likely both to commit crimes and to be fearless about being caught.

Will the health-care system be able to cope? No. It costs over $10,000 a year to treat an HIV patient with the anti-retroviral drugs that have turned AIDS in the West from a disease that causes imminent death into one that is merely incurable. With 4m sufferers already, treating them all is out of the question. However, in their dying days AIDS patients will have to be looked after. This is likely to push up the public-sector health bill from roughly 28 billion rand this year to roughly 38 billion in 2010. Over half of that sum will be going to the treatment of HIV-related illnesses (see chart 2). It may take longer to see the effects on the private-sector system, which covers about 20% of South Africans, but AIDS could increase the bill by well over a quarter in 2010. Medical-insurance premiums are rising (as are costs), to the alarm of an already struggling industry that is now obliged by law to accept all who apply.



Many other parts of the economy will also be affected. The United Nations expects the epidemic to knock 0.3-0.4% off the growth rate each year, making South Africa's GDP in 2010 17% (or $22 billion) lower than it would have been otherwise. Not all industries, however, will suffer severely. The gold-mining companies, for instance, among the few to have thought seriously about the consequences of AIDS, are fairly confident that they can cope, even though many of their workers are infected. One of the big ones, Gold Fields, reckons that when the death rate for its miners is at its highest, it will be losing 2.5-3% of its workforce each year—a lot, but much less than the 35% turnover in the days of the migratory-labour system in the mines.

Missing persons

Productivity will suffer, though, especially in the final months of a worker's life, and when his colleagues take time off to attend his funeral, possibly in a distant rural area. Some companies will lose 40-50% of their workforce in the next ten years, and the cost of an average set of risk benefits (death benefit, spouse's and disability pensions) is likely to double, if not triple. Paradoxically, some capital-intensive industries may be more vulnerable to AIDS than labour-intensive ones. Coal mining, for instance, needs skilled workers to operate sophisticated equipment; when they die, they may be hard to replace. But the sharpest economic effect, says Abt Associates, will probably be on the distribution of wealth: AIDS strikes all, but the poor carry the greatest burden.

Why should HIV have swept through South African society so quickly? In 1990, the rate of infection in both South Africa and Thailand was less than 1%. Today it is about 2.2% in Thailand but probably well above 10% in South Africa. In Thailand, however, it has proved relatively easy to conduct public-awareness campaigns, chiefly because so much sexual activity takes place in brothels. In South Africa sex is shrouded in mystery, but it has plainly not been conducted safely. AIDS has spread so fast partly because many men are still migrant workers, who sleep with prostitutes and then go home to infect their wives; partly because this is a fractured society where many of the old patterns of behaviour have broken down, so that men, and quite a lot of women too, tend to have many sexual partners; partly because levels of sexual violence are high (South Africa has proportionately more reported rapes than any other country, and the police think they hear about only one in 35); partly because many people are malnourished and have low immunity; and partly because sexually transmitted diseases, which vastly increase the chances of AIDS infection, are rife.

One further reason, however, is the attitude of the government, and especially of the current president, Mr Mbeki. Mr Mandela's record on AIDS was not good; he found the topic embarrassing. Mr Mbeki,

however, has found it fascinating, so fascinating indeed that he has dabbled in bizarre theories not just about the causes of AIDS, but also about a supposed conspiracy involving the CIA and the big pharmaceutical companies to sell drugs by promoting the thesis that HIV causes AIDS.

The president's reluctance to accept that HIV causes AIDS, coupled with the obduracy of the country's first black health minister, Nkosazana Zuma, has led to a catalogue of blunders: a venture into a dangerous cul-de-sac in quest of a cheap miracle cure called Virodene; the rejection of several offers by drug companies to provide, at a discount, drugs that did work; the long refusal to make the anti-retroviral drug AZT available in public hospitals, though this was provenly successful as a cheap treatment for halving the chances of passing on HIV from mother to newborn child; and the refusal, until last September, to allow nevirapine, an even cheaper retroviral drug, to be used.

None so blind

All of this has had disastrous effects. First, it has meant that the measures to combat AIDS have been utterly ineffective. Awareness of the disease is now widespread, but there is still a shortage of condoms in South Africa. Moreover, far too little is still being done to get rid of the terrible stigma attached to AIDS. This became cruelly apparent with the death last October of Parks Mankahlana, presidential spokesman for Mr Mbeki and Mr Mandela before him. Officially, he was said to have suffered from chronic anaemia, but there was much speculation—and no denial—that AIDS was responsible for his death. The truth is that though several ANC members of parliament are HIV-positive, and take the anti-retroviral drugs that their medical scheme pays for, no prominent politician admits to carrying the virus. How cruelly ironic that it should have been poor Mr Mankahlana, even as he was dying, who had to spout so much of the nonsense about AIDS circulating in his boss's head.

With such attitudes on high, it is perhaps no wonder that, until recently, no treatment was allowed (except in the Western Cape, where the opposition Democratic Alliance is in control) to reduce the transmission of HIV from mother to baby, though 25% or so of pregnant South Africans carry the virus. Nor were doctors allowed to treat even HIV-infected children. Glenda Gray, head of the Perinatal HIV Research Unit at Chris Hani-Baragwanath Hospital, South Africa's biggest, puts it this way. "The message is, 'If the government doesn't care, why should the doctors?' In Mpumalanga, you can't even give AZT to rape victims."

Fortunately, the government has at last got the message. Mr Mbeki may still harbour his doubts, but his ministers are now saying outright that HIV causes AIDS, and he himself has tempered his public utterances. Various campaigns are under way, nevirapine is being used in 25 trials, more money is being made available to combat the disease and belated thought is being given to ways to deal with its consequences. But for many years thousands of South Africans who might have lived long and productive lives will be dying because of the irresponsible policies of a culpably misguided government.

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Inequality changes colour

Feb 22nd 2001
From The Economist print edition

A new black middle class is emerging, slowly

FOR the moment, most South Africans probably consider AIDS to be an act of God, not something to lay at the door of the government. They may take a less charitable view about the state of the economy, though with respect to the main aspects of economic management the government has much less to be ashamed of.

How much of a change has it produced? A casual glance at central Johannesburg suggests a revolution. Where once the Union Castle Steamship Company served its white clientele in its smart offices opposite the Rand Club, the Bangkok Factory Shop now supplies the hawkers and traders who throng the city's streets. Africans have largely taken over the formerly mixed-by-day, white-by-night centre, while the former tenants of the old buildings have fled to the northern suburbs. Only a few of the big companies, such as Standard Bank, ABSA (another banking group) and the Anglo American mining giant, are still headquartered in the centre. Property values have collapsed.

That may not worry most Africans. They are probably more concerned about the progress of the government's "affirmative action" and "black economic empowerment" programmes, which are designed to redress the legacy of exclusion that kept almost everyone except whites from either running businesses or reaching the top of the professions. As soon as apartheid began to crumble, in the early 1990s, big companies started recruiting black employees, and their promotion has often been swift. But many black businessmen who wanted to run their own companies had their fingers burnt in the emerging-markets crisis of 1998-99. Many had borrowed money, using their stakes as collateral. When the shares collapsed, their collateral was called in. The share of the market capitalisation of the Johannesburg Stock Exchange attributable to these "black chip" companies dropped from 6% in 1998 to 1.5% last August. Some four-fifths of the total is now accounted for by the only real success, Johnnic Holdings, an entertainment, media and telecoms group.

In an effort to promote change more effectively, a commission on "black economic empowerment", chaired by Cyril Ramaphosa (once considered Mr Mbeki's main rival for the presidency), recently proposed several new measures, including two new acts. The main ways in which the government hopes to give a leg up to the victims of apartheid are the 1998 Employment Equity Act and the 2000 Equality Act.

The Employment Equity Act aims not to impose quotas but to ensure that "designated employers"—those in the private sector that employ over 50 people or have a turnover above a certain threshold—should attain "demographic proportionality" (black Africans make up some 70% of the workforce, women 45% and the disabled perhaps 5%).

Micromanaging equality

All "designated employers" must draw up a "profile" showing the breakdown by race, sex and disability of their workforce (to be racially classified, presumably, according to good old apartheid principles). They must then determine the "degree of under-representation" of blacks, women and the disabled, and identify any barriers, including anything that contributes to the "lack of affirmation of diversity in the workplace". Then "all practices must be assessed in terms of cross-cultural and gender fairness", taking into account "more subtle and indirect forms of...stereotyping". Then plans must be implemented to achieve "reasonable progress" towards employment equity.

The good news is that only "suitably qualified people who are black, female or disabled are entitled to "equitable representation"; the bad news is that "suitably qualified" means any black, female or disabled person with "the capacity to acquire, within a reasonable time, the ability to do the job".

The Equality Act, which takes precedence over all laws except the constitution itself, reinforces the constitutional ban on discrimination (for almost any reason imaginable) and identifies potentially unfair practices in a wide variety of fields. Awkwardly for those accused of such unfairness, they have to prove their innocence.

It is too soon to say whether these acts will help create the “black bourgeoisie” that Mr Mbeki wants to use “to wipe out the legacy of racism”, or whether “empowerment” will deliver economic growth, as Mr Ramaphosa believes. But it seems unlikely. Of course, some blacks are doing well economically. In fact, the gap between the races, crudely measured, has been diminishing for 30 years. In 1970, whites had 71% of personal income in South Africa, blacks had 20%. By 1990, the white share had fallen to 54% and the black share had risen to 33%, and the trend has continued.

Moreover, the richest tenth of the population, which was 95% white in 1975, by 1996 was 22% black, 7% Coloured and 5% Indian. But all this merely goes to show that the trend is towards greater black prosperity. It is likely that the constitutional ban on discrimination would alone accelerate the trend, and at the same time avoid the costs of the new legislation. For costs there are, and many of them work counter to the interests of the very people the laws are designed to serve—the disadvantaged majority.

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Jobless and joyless

Feb 22nd 2001
From The Economist print edition

So much has been done right, to so little effect. Surely, the economy must improve soon

BIG companies do not complain much about the new job-preferment laws. Most of them would in any event be doing their best to employ and promote blacks, although perhaps not women and the disabled. Moreover, they can afford to bear the burden of red tape that the laws impose. But big companies are not the ones creating jobs. On the contrary, many of them have been restructuring and shedding labour over the past six or seven years. If new jobs were to appear, they would be created by small and medium-sized companies. Although the small are exempt from the new laws, medium-sized ones are not, and they find them onerous.

Reuters

Don't mention GEAR

Jobs, however, have become the paramount issue for many South Africans. Officially, and on a strict measure, unemployment is not far off 25%. On a broader definition, it is 36%. Probably only 40% of the economically active population is employed in the formal, non-agricultural sectors of the economy. Moreover, since 1994 about 500,000 jobs have been lost. Meanwhile, the population is growing at over 2% a year, as is the labour market, though AIDS is already cutting the rate of growth of the working-age population.

The situation is not as terrible as the figures suggest: many people work, and work productively, even if they do not have an officially recognised job, as the swarms of hawkers and pedlars at traffic lights attest. But far too many have no job worth speaking of, which is why over 3m people are actively looking for work. And as the economy has changed, jobs seem to have been lost in the formal sector and gained in the informal one. The dearth of decent work is one of the greatest disappointments of the new South Africa.

One problem is the web of labour laws that enmesh employers and therefore encourage them—notably in the mining industry—to invest in machinery rather than men, or not to invest at all. They act in two highly damaging ways. One is simply to add to the expense of employment: the cost of labour relative to capital has doubled since 1990. Another is to make it intensely difficult ever to get rid of workers, as Volkswagen has recently discovered: it was ordered last month to reinstate 1,300 employees sacked last year in an illegal strike.

As it happens, the public-service minister, Geraldine Fraser-Moleketi, wants her own ministry to be partly exempt from the Basic Conditions of Employment Act. She also wants to "outsource" some of her department's activities, to the apparent disgust of the labour minister and other members of the cabinet. It is a government, after all, that rules in alliance with the union movement, COSATU. And yielding to COSATU on labour laws helps the ANC to get away with a macroeconomic policy that has brought growth per person of under 1% a year since 1995. The price is a labour policy that benefits those with jobs, notably COSATU's 1.8m members, not the 3m-5m with none.

Good, but not good enough

In fairness, the government has done lots of things right. It has reduced the national budget deficit from 8% in 1994 to a planned 1.9% this year and a forecast 1.7% for 2001-02. Inflation, too, has fallen, from 9% in 1994 to about 6% today. The disciplined fiscal and monetary policies responsible, coupled with measures to open up and liberalise the economy, have brought South Africa investment-grade status from the rating agencies, Moody's and Standard & Poor's, and its long-term foreign-currency debt rating has been upgraded by Fitch IBCA.

The aim has been to promote “growth, employment and redistribution”, GEAR. But growth has not even reached the modest rate of the 1970s (an annual average of 3.3%); jobs have disappeared; and any redistribution achieved has been combined with increasing inequality. Above all, the foreign investment that might have been expected to come to a country that was doing so many things right has not materialised.

It is true that foreign direct investment has grown since 1994, and South Africa has been especially successful at attracting car companies. All Mercedes right-hand-drive C-class cars are now built not in Stuttgart but in East London, and all BMW 3-series models are built in Pretoria. Fiat and Volkswagen also produce cars for export, and Ford makes engines at its Port Elizabeth factory that it sends abroad.

Moreover, the foreign companies that have come in are generally pleased with their investments, and many are expanding. But South Africa has not been able to attract enough new companies. Many of those that have been investing recently—especially American companies such as Ford, GM and Eastman Kodak—had pulled out of South Africa in the latter days of apartheid. And by the standards of other countries, South Africa has lured relatively little foreign direct investment: $32 per head in 1994-99, compared with $106 for Brazil, $252 for Argentina, $333 for Chile.

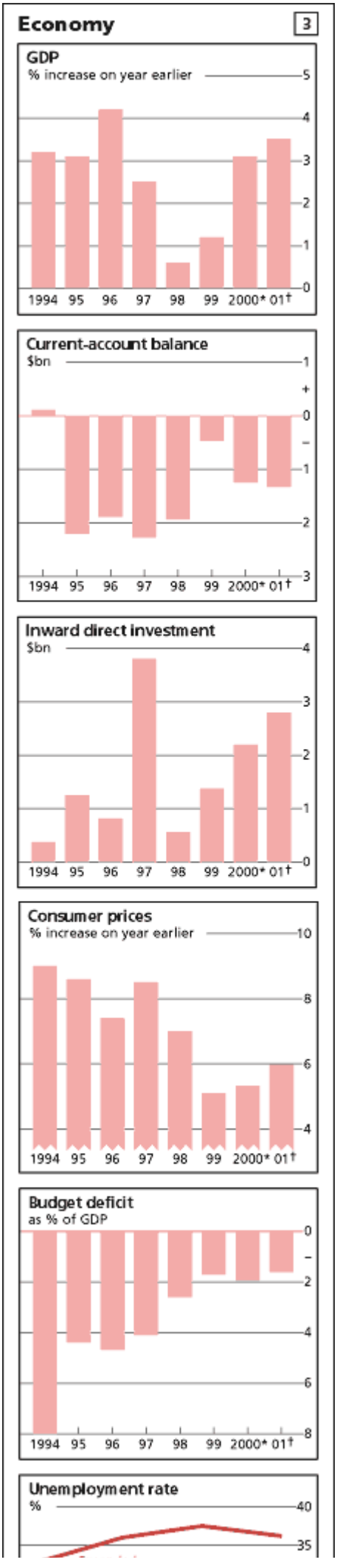
At the same time, money has been leaving South Africa: the $9.8 billion it invested abroad in 1994-99 exceeded the inward flow by about $1.6 billion. And its big companies, long confined by apartheid’s isolation, are now anxious to seek stock-exchange listings abroad. The capital they need for expansion is far more expensive if raised in South Africa, which still has some exchange controls, than in Europe or North America. So in the past few years, Anglo American (mining), Billiton (mining), Old Mutual (insurance), South African Breweries and Dimension Data (a hugely successful information-technology company) have all sought primary listings elsewhere.

The urge to seek a foreign listing will disappear when all exchange controls are abolished, which the government hopes will be within a few years. But will the jobs have arrived by then? Alec Erwin, the trade minister and one of the government’s most determined optimists, argues that the economy has structurally changed; it is internationally competitive, and it now has a significant high-tech industry as well as all its old basic strength in minerals and raw materials. It should also be said that the government is open, committed to reforming the civil service and relatively uncorrupt by the standards of many countries. It has an excellent central bank, run by the capable Tito Mboweni, decent transport and a first-world legal system. It is also politically stable.

Yet it needs more. Perhaps the measure that would do most good would be to speed up the privatisation programme. Several big state enterprises—involving energy, steel, telecoms, the airports and the national airline—have been sold, or at least partially sold, and the sales have generally been handled well. However, privatisation is pursued grudgingly in South Africa. Nico Czypionka, chief economist at SG Securities, thinks the speedy sale of Eskom, the huge state electricity company, would alone bring in 80 billion-90 billion rand and thus go far towards paying off the government debt and freeing money for other spending. Even the proposed sale later this year of another 20% of Telkom, the telecoms outfit, should bring in 15 billion-20 billion rand, and may help to make it cheaper to use telephones and the Internet.

The government has not managed all sales well. It underestimated the market for mobile telephones, guessing it would be 600,000 by 2000, whereas it turned out to be nearly 8m. But its real mistake was to hold a “beauty contest” rather than an auction for the third operator’s licence, perhaps thus missing out on as much as $200m; 18 months later, the lucky winner has still not been announced. Some also think the government could have secured much more than 6 billion rand for the 30% of Telkom already sold. But the cost of going slow on privatisation is not just revenue and efficiency forgone. It is also foreign investment forgone, and the chance to tell foreigners that South Africa welcomes them.

That is obvious enough, you might think. But until fairly recently, foreigners thought the news from South Africa was, in important respects, deeply offputting. It was not so much a fear of crime, nor even the country’s inflexible and unskilled labour market. It was, rather, the political message coming forth from the presidency, on two issues in particular: AIDS and Zimbabwe.



Sunk by politics

Mr Mbeki's attitude to AIDS appeared not just irresponsible but verging on the loony. And his efforts to persuade or cajole President Mugabe to put an end to the land invasions in Zimbabwe seemed far too indulgent and far too ineffective. Next door to South Africa was a government—in the words of Donald Woods, a former editor of the East London *Daily Despatch*, well known for his opposition to apartheid—that "actually encourages its citizens to steal private property, to use violence in doing so and to ignore court rulings to the contrary." But Mr Mbeki seemed to miss the point. His failure to condemn Mr Mugabe instantly and unequivocally raised the awful possibility that South Africa, so unlike the rest of Africa in many respects, might turn into yet another anarchic African basket-case.

By October, Mr Mbeki seemed to have understood that immense damage had been done to his, and his country's, reputation—never mind the rand, which had been plummeting. He summoned businessmen and foreign correspondents to make it plain that he was withdrawing from any further musings on AIDS, and that South Africa would eschew land reform Zimbabwe-style. Local business got behind the president; a marketing council was created to polish up the country's image; and Mr Mbeki invited 25 of the world's economic big cheeses, including the World Bank's president, James Wolfensohn, and the IMF's deputy managing director, Eduardo Aninat, to attend a "workshop" on South Africa. Mr Wolfensohn dutifully said it would be "false to draw analogies from Zimbabwe in relation to anything that is happening in South Africa". A month later Mr Mbeki was back in Zimbabwe to speak up for the rule of law.

With luck, investors will not have taken permanent fright, but the pictures of Mr Mbeki and Mr Mugabe walking hand in hand may linger in the memory. As Mr Mbeki has himself acknowledged, many outsiders do not distinguish between South Africa and the rest of a continent that is too often associated with war, corruption and incompetence. It is a fact no South African, let alone the president, can afford to forget.

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In search of justice

Feb 22nd 2001
From The Economist print edition

South Africans want to come to terms with the past, and secure a fairer future

NO MATTER how badly South Africa's new rulers had mismanaged the country, how few houses they had built, how slowly they were changing the schools, how wretchedly they had handled AIDS and crime and jobs and investment, they would probably still be popular enough to be re-elected. They have, after all, delivered self-government, and that is a source of huge psychological and political satisfaction. But it is not the only one.

Mandela and Tutu personified the vision

The first of the non-material innovations of the new South Africa is its constitution. In many respects it is over the top. It forbids discrimination on the grounds of—breathe in—"race, gender, sex, pregnancy, marital status, ethnic or social origin, colour, sexual orientation, age, disability, religion, conscience, belief, culture, language and birth". And it guarantees not only the conventional "blue" rights familiar in the 1791 amendment to the American constitution (the rights to freedom of speech, religion, association and so on), but also "red" rights (to "access to adequate housing", "reproductive health care" and "adult basic education", and even "green" rights (to "have the environment protected").

To judge by the rulings of the Constitutional Court so far, it is coping rather well with enforcing the unenforceable. When it was asked to adjudicate on the claims of "roofless" people, it upheld their complaint that the government had not done enough, in legislative and other ways, to provide access to housing; the court did not, however, say the government had to provide everyone with a house. Similarly, when asked by a man with kidney failure to uphold his right to dialysis treatment, the court ruled that it had no power to order the government how to spend its budget. Not that it would have been shy to speak out; it has ruled against the government in about half the cases it has considered.

One of the court's justices, Richard Goldstone, argues that "for 96% of the population, socio-economic rights are much the most important." That may be true. Yet the protection of minorities may be important too. Only a few people, for instance, are likely to be troubled by the clause in the Bill of Rights that gives everyone, including the government, the right of access to information. And only a few people will, with luck, fear that they may fall foul of the admirable-seeming Human Rights Commission. Their worries deserve, however, to be taken seriously. This commission may initiate lawsuits under the Equality Act and exact damages for even unintentional discrimination. If no individual has suffered, the commission gets the (possibly punitive) damages, giving it a strong incentive to pursue actions—and the presumption, under this act, is that the accused is guilty.

A more impressive, though more controversial, commission was the one that tried to explore the terrible misdeeds of the apartheid years, the Truth and Reconciliation Commission. This body, chaired by Archbishop Desmond Tutu, was attacked by some critics—Steve Biko's family, for instance—for allowing criminals to escape justice, and by others for being too pro-ANC: none of its 17 commissioners was from the National Party or the Inkatha Freedom Party, and it treated Mr Mbeki with kid gloves. In a sense, it was doomed to fail from the outset. How could it possibly establish the "truth" about all the atrocities and injustices of the past, committed by blacks and whites? Yet, in the words of David Welsh, a former Cape Town academic, "it was a *via media* between Nuremberg and sweeping it all under the carpet." In the two years or so after it began taking evidence in April 1996, some 21,000 victims of one kind or another appeared before it, movingly telling their tales to the commissioners—and to a daily television audience. It was not justice, to be sure, nor was it reconciliation, but it was the nearest to "a day in court" that could realistically be imagined for most of these people.

Investigate and be damned

One other body deserves a mention. It is the Special Investigating Unit, established in 1996 to investigate serious maladministration, corruption and fraud in connection with state institutions and public money, and to follow up its investigations with civil proceedings. In its first three years, the unit was both vigorous and successful. For every rand of public money devoted to it, it recovered 85. But under new legislation the unit can start an investigation only after a proclamation from the president, made on the recommendation of the minister of justice. The justice minister appointed after the June 1999 election, Penuell Maduna, does not seem keen on the unit. By last November not a single proclamation had been issued since he and Mr Mbeki had taken up their present posts.

The trouble is that the unit is too good at its job. The government is now embarrassed. It has stopped Judge Willem Heath, the unit's head, probing a scandal involving a 43 billion rand arms contract, and Mr Mbeki has said he will remove Mr Heath from his job altogether, now that a court has ruled (at the minister's behest) that it is unconstitutional for a judge to head an investigatory unit. What started out as a splendid example of the new South Africa's commitment to honest public administration is being undermined by the very people who are meant to be the guardians of justice and the public purse.

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Over the rainbow

Feb 22nd 2001
From The Economist print edition

Non-blacks see Mandela's vision dim

SO FAR, this survey has been mainly about blacks. But of South Africa's 43m people, 4.5m are white, 3.8m are Coloured and 1.1m are of Asian (mostly Indian) origin. Attitudes towards the new order vary widely among these groups.

Not black enough?

The commonest new complaint among whites is that politics has been "re-racialised". Never mind that a lot of those who make this charge were happy enough to accept racialised politics in the past. The claim a few years ago was that South Africa had become a "rainbow nation" with a non-racial future before it, and prominent blacks with every reason to bear a grudge—such as Mr Mandela and Archbishop Tutu—behaved in ways that suggested they meant what they said. That was perhaps the main reason for optimism. Now, however, Mr Mbeki habitually speaks of South Africa as "two nations", one rich and white, the other poor and black.

The "re-racialisation" of politics is nowadays described in footnoted detail in the publications of the Democratic Party and the Institute of Race Relations, both of which have honourable records as opponents of apartheid. And the burden of their charge—that race is indeed once again a dominant factor in South African politics—is borne out by the "affirmative-action" laws and the public utterances of ANC politicians. That may be a matter for regret, but is it really surprising?

Steven Friedman, of the Centre for Policy Studies in Johannesburg, says no. The Mandela-era change was never meant to be an abandonment of race-based politics, he says, merely an abandonment of the allocation of political rights based on race. The aim of all the professions of non-racialism was to secure a peaceful transition—hence the contract between the races negotiated in the early 1990s. Now that civil war has been averted, the ANC can get on with governing. For Mr Mbeki, that means renegotiating (not abrogating) the contract. In Mr Friedman's view, white South Africans have a deeply embedded belief that blacks cannot run a government, and black South Africans believe equally strongly that whites are hostile. This accounts for the enduring nature of racial politics.

There can be little doubt that the ANC finds race useful as an excuse for its failures, even though it is not threatened at the polls. And there can be little doubt that Mr Mbeki is not a natural, expansive leader who educates his followers and explains his policies, but rather an inscrutable, intellectually aloof president happy to rule by decree.

Exit strategy

One way or another, race as an issue looks set to stay. Many whites, however, are not. The official figures suggest that South Africa lost an annual average of only 9,000 people in 1994-99, fewer than the 10,300 a year who emigrated over the previous half-century. But the official figures are misleading, since many people go without telling the authorities. A survey in 1998, for instance, reckoned 234,000 had left in 1989-97, compared with the official total of 82,800. In any event, the number of legal immigrants has fallen to a record low—3,669 in 1999.

It may be that some of those who have gone were out-and-out racists who could not bear the thought of a black-majority government. More likely, however, the emigrants were the most educated and employable, and therefore the ones South Africa could least afford to lose. More may easily follow. Probably 750,000 South Africans hold British passports, and those less fortunate can go to their local

newsagents and buy such guides as “Getting Into America”, “Getting a Job in Australia” and “Emigration to Six English-Speaking Countries”. One prosperous young white businessman in Cape Town says there is not a millionaire among his acquaintances who would not go if he could realise his assets and get his money out.

Those who stay do not, however, seem to be suffering intolerably. True, some formerly white areas have deteriorated badly. Albert Park in Durban is one such, and Hillbrow, in Johannesburg, is another. Once an oasis of bohemia in one of the stuffiest societies in the world, Hillbrow is now a jungle of prostitutes, drug-dealers and other criminals.

Yet most whites still lead comfortable lives, albeit behind ever higher walls, protected by ever growing coils of razor wire and the well-advertised services of “armed response units”. A few are doing astonishingly well. Mark Shuttleworth is hardly typical, but he shows what is still possible for whites in South Africa, if they have energy and talent. Five years ago he was a student at the University of Cape Town who had become engrossed by the Internet. In December 1999 he sold his software company, Thawte, for $575m. Now he is contemplating setting up an electronic stock exchange for South Africa.

The whites who might have been expected to adjust least well are the Afrikaners. They have been in South Africa longest, missing out on the Enlightenment in Europe, eschewing business until recently and taking such comfort as they could in a culture of isolation. No Dutch passports for them; they are in Africa to stay. And some would say they have adjusted better than the English-speakers. Afrikaners may have been brutal in the past, and some still are, but they have usually been straightforward and free of the social hypocrisies of English-speakers. That same directness may now be helping them to cope with the new South Africa.

The change is certainly profound for them. For half a century their political institution, the National Party, was both cohesive and invincible. Now it is but a subsidiary component of the Democratic Alliance. In a delightful twist of history, its 28 parliamentary members meet in the Helen Suzman Caucus Room (Helen Suzman was for many years the only member of parliament to provide an effective opposition to the Nationalists and to speak up for a non-racial South Africa).

Perhaps because the Afrikaners have adapted, perhaps just because they seem unthreatening, the government devotes far more of its criticism to the liberal Democratic Party. In any event, the end of apartheid may well prove to have been a liberation for Afrikaners as well as for those they oppressed. Just as racial segregation held back the American South until the 1960s, so it held back South Africa. And just as civil rights for blacks in the South proved liberating for white southern businessmen, so they may prove to be liberating for the new breed of commercially minded Afrikaners. And Afrikaner women may be the most liberated of all.

The other racial groups seem less happy. Admittedly, some Indians have done well in the new order. It is a common complaint among blacks, for instance, that Indians are over-represented in the government. But poor Indians have suffered from economic restructuring: the dismantling of trade barriers has closed down many textile and clothing factories in which unskilled Indians worked.

Coloureds are less discontented. Yet in the two provinces where they predominate, the Western Cape (54% of the population) and the Northern Cape (52%), they did not show great enthusiasm for the ruling party in the local elections last December. It was largely Coloured support that enabled the Democratic Alliance to hold on to control of Cape Town. In general, the poignant complaint of the Coloureds is that “Under apartheid we were not white enough, now we are not black enough.”

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Hope deferred

Feb 22nd 2001
From The Economist print edition

Present disappointment need not mean future failure

"YOU have to remember we're in the middle of a revolution here—it really is a revolution—and it may go on for another 20 years." That is the view of Peter Davis, the editor of the Durban *Sunday Tribune*. If he is right, then South Africa, despite the crime, the AIDS epidemic, the lack of jobs and all the other failures, is quite a success story.

There are certainly things to be cheerful about. It is so natural now to see black faces running the government, and occupying prominent positions in all walks of life, that the grim days of apartheid seem a hundred years ago. Yet little more than a decade has elapsed since South Africa was a bleak, culturally sterile, inward-looking country run by safari-suited bigots. To see it now, with foreign goods, films, books and magazines all freely available, makes it easy to forget that even *Playboy* used to be banned and there was no television until 1976. Parliament, once grey, forbidding and almost wholly male, is now colourful, relaxed and at least partly female.

South Africa has replaced one of the most odious systems of government in the world with a stable, multi-party democracy. Government and opposition are on bad terms, but the spirit of compromise seen over the constitution—a document that was produced by 26 different political parties in four tumultuous years after 1992—can still periodically be seen.

A civil service quite unused to democracy is now starting to improve, helped by thousands of dedicated individuals outside government who are doing their utmost to make things work. Compared with many countries, South Africa is still remarkably uncorrupt, though the government's zeal to keep it that way is evidently waning. And it boasts a rich array of non-governmental institutions—as well as, it should be said, an honourable tradition of dissent—that will help keep pluralism alive. The press, particularly the Afrikaans press, is lively.

Moreover, the spirit of give-and-take can still prevail. The political violence that claimed so many lives in the mid-1990s has died down, thanks largely to the ANC's readiness to bring Mangosuthu Buthelezi of the mainly-Zulu Inkatha Freedom Party into government, and to give lots of other jobs to Zulus. The same spirit of inclusiveness has brought COSATU and the South African Communist Party into the governing alliance, which has undoubtedly made it easier for the government to stick to its conservative macroeconomic policies.

These have been right, even if so far they have not brought the hoped-for growth, investment and jobs, because the basis for expansion is now in place. The economy is pretty competitive; tariffs are low; so is inflation; the current-account deficit is small; and the country has no significant foreign debt. With luck, GDP will grow by 3.5% this year, compared with 3% in 2000.

But is all this enough? And is a 20-year revolution really needed? Most South Africans do not seem to consider the old order to be their main concern. To be sure, they abhor the racism that still surfaces here and there, yet in surveys only about 5% list it as their main concern. If a revolution is really required, it is of a more humdrum kind, familiar throughout the third world: the transformation of a poor, backward society into a richer, modern one.

Here the record is less good, and the trend more worrying. The economic concerns centre on the ability of the economy to grow: 3.5% will be an improvement on rates achieved in the past, but as Trevor Manuel, the finance minister, acknowledges, South Africa needs to sustain annual rates of 5% and more. Black economic empowerment, of the kind at present envisioned, seems unlikely to do that. Thembo Sono, of the University of Pretoria, argues that the government's "affirmative action" policies are unnecessary; they help only middle-class blacks "who can look after themselves", while doing nothing for the poor. A better bet would be to opt for rapid privatisation and to undertake wholesale deregulation of

the labour market. With a sensible telecoms policy, South Africa might even be able to establish a computer-software industry like India's.

It would, however, take political courage. The ANC thinks it needs to pacify the left—not just the left within its own ranks, but also the unions, the Communists and the viscerally anti-white Pan African Congress. On the face of it, this seems odd. With a huge majority in parliament, the ANC hardly seems threatened. But it might indeed be ill-advised to antagonise the left, especially if the economy does not improve. In a straight race against even an effective Democratic Alliance, the ANC can expect to stay ahead for years; but in a three-horse race, joined by a resurgent left-wing challenger, its dominance would look much less secure. That is no doubt one reason why the ANC chooses to remain a non-programmatic movement, not a conventional party. Some analysts, such as Robert Schrire of the University of Cape Town, think it has no choice but to "re-racialise".

Maybe, if it is concerned only about its own interests; but not if it is concerned about those of the country as a whole. The main price of its present policies is an increasingly divided society. Instead of continuing to narrow the rift between the races, the racial appeals and the racial legislation are tending to keep them apart. At the same time, the gap between rich and poor is growing.

A secondary price of the obsession with race is that it may keep the government's attention from more important matters. The blind eye that it turned to AIDS before deciding to give it such peculiar attention should have been a warning. Today it seems strangely ignorant, or unconcerned, about something almost as intractable: the breakdown of the family. Teachers say that nothing makes as much difference to a child's ability to succeed at school—and then in society—as a strong family. And the collapse of family structure surely accounts for much of the violence in South Africa. Yet ministers seem much happier to attend a conference on racism than one on the family.

It may be too much to expect a country that has been run on racial lines for decades, if not centuries, to shake off the past so quickly. But part of the sense of disappointment that attends the new South Africa is that it seemed, only a few years ago, to be trying to do so. Perhaps only liberals were foolish enough to take that attempt at face value. Most members of the South African government are emphatically not liberals; many, including the president, are ex-Communists, and it often shows.

In other parts of the world, communism has been seen not to work, whereas liberal economics has been rather successful. Of course, many South Africans have noticed: just look at Mr Manuel. But perhaps too many of his colleagues remain unconvinced. In any event the impression is given that South Africa's great example of racial reconciliation, having served its purpose, can now be forgotten.

South Africa first, the rest may follow

If one person could reverse all this and restore the spirit of the Mandela era, it would be Mr Mbeki. He has a number of able lieutenants to help him, including Mr Manuel, Mr Erwin, Mr Asmal, Mr Mboweni and Mrs Fraser-Moleketi, the public-service minister. But the government bridles at criticism and it lacks leadership.

Some blacks in opposition parties do criticise it. And even some who are sympathetic to the ANC, such as Jerry Coovadia, the chairman of last year's AIDS conference in Durban, and Mamphela Ramphele, the former vice-chancellor of the University of Cape Town, have expressed their misgivings. But too often criticism is bitten back, for fear either of charges of racism, or of retribution, for the ANC commands both power and patronage. Ms Ramphele has gone so far as to speak of "a culture of silence...putting South Africa's democracy at risk".

Mr Mbeki can hardly be expected to encourage criticism. Yet he could encourage debate. Above all, he could build consensus for his policies. He wants to be a spokesman for Africa, and constantly speaks about "the African Renaissance". But as yet this is little more than a name for a clutch of generally well-meaning aims—democratic political systems, sustainable development, attention to African "specifics", the emancipation of women, the rediscovery of Africa's "creative past" and so on. It is hardly an idea to set the savannahs alight.

A rip-roaring economy and a harmonious polity would give him a much better base from which to make his claim to lead Africa. Plenty of obstacles not of his making obstruct his path: apartheid's legacy, AIDS, periodic crises in Asia, Latin America or Russia, and so on. But he could still be doing more. Fortunately, South Africa has shown that it can perform miracles. Whatever its shortcomings today, his country is a

far happier place than it used to be, and a far happier place than it might have been. In time, it may yet fulfil the promise of the Mandela years.

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Feb 22nd 2001
From The Economist print edition

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Banner-ad blues

Feb 22nd 2001 | NEW YORK
From The Economist print edition

Reports of the death of Internet advertising have been exaggerated. But its struggles suggest it will take longer than expected to realise its early promise

Get article background

INTERNET advertising has a lot to answer for. Thousands of dotcoms saw it as a substitute for a business plan, a blithe answer to the question of how to make money from the traffic on free websites. It has polluted the top of millions of web viewers' screens, making an inch of valuable property a no-go zone of garish clutter. Oh, and it has largely failed, generating only measly returns for advertisers and publishers (see article). When the Internet bubble burst, investors saved the harshest punishment for dotcoms built on advertising, from Yahoo! to DoubleClick.

The immediate problem is simple: too many pages and too few advertisers. The number of pages on which to advertise is increasing along with overall Internet use. At the same time, the number of advertisers is falling as the most profligate of them—dotcoms, needless to say—pull back or go bust. As a result of this imbalance, the amount that remaining advertisers are willing to pay is falling, to as little as $1 per thousand views (a measure known as CPM), down from ten times that a couple of years ago.

Underlying this crisis are some fundamental problems. The view of web advertising circa 1999 has turned out to be mistaken. It was supposed to break through all that was weak and irritating about traditional advertising. It was accountable, because software could track which ads led to which sales. It was non-disruptive, meaning that, unlike TV and radio ads, it did not need to interrupt a viewer. It could be targeted, so that only the most likely prospective customers would see an ad, improving response rates. And it was entertainingly interactive, encouraging viewers to learn as much or as little about the products as they wanted to.

For most publishers, however, web advertising has proved less attractive than its offline equivalent. In print media, advertising rates tend to go up over time; online, they fall. Print advertisers pay for space whether anyone sees it or not, and the same ad typically goes to all readers, or at least to all those in a particular region. In contrast, web advertisers can pay to have their ads reach only those readers who view a particular page, or perhaps just those among them who are executives with high six-figure salaries. Unlike print advertisers, they need not pay for those they are not interested in reaching. Online publishers are, in effect, punished for the efficiency of their medium.

Each of the supposed advantages of online advertising has shown a dark side. Take accountability. The old cliché of the offline advertising industry is that you know half of your advertising will be wasted, but not which half. On the web the answer is only too clear: it is the half that generates the fewest clicks. As a result, advertisers increasingly insist on payment based on performance—measured either by clicks or actual customer acquisitions—rather than just ad "impressions" (viewings).

But if a viewer does not click on a banner ad, whose fault is it? Is it the publisher's, for having the wrong sort of readers or poor placement, or the advertiser's, for having a boring ad? Likewise for customer acquisition: the fact that a "click-through" does not turn into a client can mean that the viewer was the wrong sort of prospect, or that the advertiser has discouraged him with an off-putting pitch on its own site.

As a result, publishers that are being pushed to accept performance-based deals are increasingly forced

to work with the advertisers, helping them to craft ads on their own site to get the best response. Aside from distracting media firms from their main business, this pushes them towards becoming business partners with their advertisers, blurring the usual arms-length relationship between media and advertising.

The notion that the online ad is non-disruptive also has a sting in its tail. Banners may not interrupt reading, but they are very easy to ignore: average click-through rates have fallen to less than one in 200, half that of the early days. As a result, advertisers and web publishers are adopting increasingly disruptive devices to keep their click-throughs up. For instance, many sites now feature infuriating “pop-ups”, advertising mini-windows that open on their own and will not go away until a viewer manually closes them.

If web ads were entertaining, the fact that they are increasingly distracting would be all right. But few go beyond crude slide shows, or just single slides. The blame for this lies mostly with the advertisers themselves. Getting Internet advertising right means creating lots of different, interactive ads that can be tested against each other and refined with up-to-the-minute monitoring of responses. That takes lots of money, time and effort. Yet the Internet market is not yet large enough for most advertisers to justify the expense. Five of the world’s top ten advertisers, which collectively spend billions of dollars each year on traditional advertising, spent less than $1m each last year on online ads.

The result is a Catch-22: unless advertisers work harder to make more of the Internet, consumers will continue to reject most online advertising; but until consumers start clicking more, big advertisers will not spend much to improve their offerings. Today, three-quarters of web ads are still boring old banners, a format that has remained largely unchanged for more than six years. Most advertisers simply cannot be bothered to take advantage of more innovative styles—such as “skyscrapers”, which run vertically down the right side of the screen.

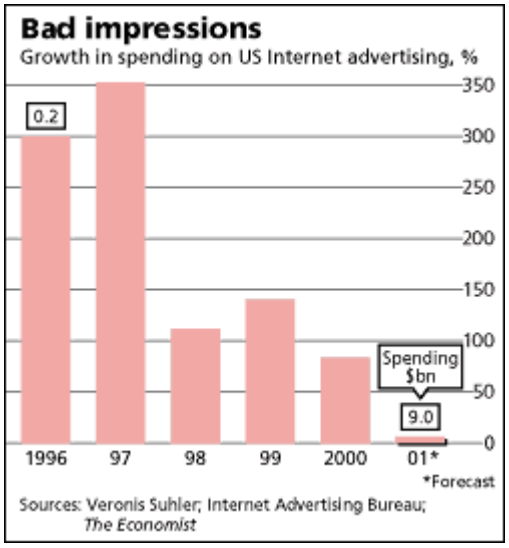
Customer targeting, too, has so far failed to deliver on its promise. The idea was compelling enough: if a publisher can match a viewer’s interests with an ad, the clicks should take care of themselves. Advertisers have been willing to pay as much as a hundred times more for an well-targeted online ad than for blanket coverage.

But targeting turns out to be easier to talk about than to do. Although web publishers know far more about their readers than print publishers do, turning that into a clear picture of readers’ wants and needs is difficult. Is somebody who clicks on a weather report a sportsman, a commuter or merely somebody with time to kill? Even if a publisher can guess that the viewer is, say, a fly fisherman, the odds are that it will not have that perfect fly-fishing ad to display. And even if it does, it cannot control what happens once the viewer clicks.

Despite all this, the long-term future of web advertising is promising. The problem is not that the underlying theories are wrong, but that the necessary ingredients have not yet come together to make them work. Gradually, this will change. As the dotcom advertisers go away, they tend to be replaced by bricks-and-mortar firms, many of which are among the world’s largest offline advertisers. Since these firms tend to understand the value of building brands, and worry less about seeing measurable results in the short term, their arrival may move the top end of the online market closer to traditional advertising models.

Meanwhile, web-advertising rates are not falling as quickly as CPM figures would suggest; top sites can still get $30-50 per thousand views, just a few dollars short of last year’s figures. Total online advertising will reach $8 billion-10 billion this year (see chart), despite the dotcom crash and America’s economic malaise. That number is significant for two reasons. First, it will be at worst about the same as, or slightly above, last year’s figure—not the outright collapse some have predicted. Second, this is still a very young market. The first Internet ads ran just six years ago. Despite runaway growth in the late 1990s, online advertising is still in its infancy. It represents only 3% of all advertising; radio, for instance, still attracts twice as many ad dollars.

The market’s rocky start should not be so surprising. It took radio more than 50 years to reach the advertising levels of the web today. It is, however, disappointing, given the revolutionary early promise of the medium. Internet advertising will eventually find its place in the top ranks of media markets, but it will take longer to do so—and leave more dead and wounded along the way—than anyone would have guessed a year ago.



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Economist.com BUSINESS
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About sponsorship

Monetise this

Feb 22nd 2001 | NEW YORK
From The Economist print edition

Get article background

AT CURRENT online-ad rates, it is almost impossible for web publishers that create their own content to make money—just ask any of the two dozen, from Z.com to eCountries, that have gone bust in the past month alone. The reason for the bloodbath is simple: advertisers are not willing to pay enough for web ads to support the cost of displaying them.

To see why, consider a credit-card firm that wants to find customers online. Say it runs a campaign to display its banner ad to 2m viewers. Using industry averages, one out of every 200 viewers can be expected to click on the ad; one out of every 100 of those will actually sign up for a credit card. Thus, the campaign would yield 100 new customers. Offline, the firm pays about $150 for each customer it acquires, through anything from direct mail to television ads. Using the same rate, it would therefore be willing to pay $15,000 for those 2m online-ad views, or a cost-per-thousand-views (CPM) rate of $7.50.

Now consider the economics of the website that is running those ads. It probably does not have its own ad sales team, so it is getting those credit-card ads from an advertising network such as DoubleClick. The network takes half the revenues, leaving the site with a CPM of $3.75. Imagine that the site is very successful, say among the top few hundred on the web. If so, it may be able to generate 10m page views a month. At $3.75 per thousand views, that means revenue of $37,500 a month. Take out hardware, software and bandwidth costs, and enough might be left to support two employees or so.

This grim picture can be improved by selling more than one ad per page, but such clutter often comes at the cost of a lower rate of “click-throughs” and, eventually, even lower CPMs. The site can try to charge higher CPMs by providing more information about viewer demographics, to help advertisers target their ads, or by claiming that it has cachet that may justify a premium for brand-building advertisers. But advertisers are sceptical.

The biggest web portals get their content almost for free—a mixture of material from other sites and content created by viewers—and attract so much traffic that they can support huge organisations on low CPMs. But for most smaller websites, there is no way out. Those that cannot find revenue sources beyond advertising will either go bust or be forced to admit that their site is a non-profit enterprise. If truth-in-advertising rules were enforced, most dotcoms would be dotorgs.

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Economist.com BUSINESS
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About sponsorship

Napster

A cool billion

Feb 22nd 2001 | SAN FRANCISCO
From The Economist print edition

Get article background

WITH its prospects in the courtroom looking bleak, Napster is taking its case to the court of public opinion. On February 20th the troubled company, whose software allows users to swap free music files online, revealed the details of the offer it has been making to the record industry, which wants to shut it down. Napster proposes a new, subscription-based version of its service, capable of tracking who is downloading what, so that royalties can be paid. This plan was cooked up in conjunction with Bertelsmann, the media group that owns BMG Entertainment, one of the Big Five record companies suing Napster. But despite months of talks, none of the other four has signed up to the new plan. By making it public, and adding a new twist, Napster hopes to force their hand.

At the moment, Napster users access a central directory that records who has what, to find another user on the network with the particular music file they are looking for. Once the two users have been put in touch with each other, the file is transferred directly from one to the other in a “peer-to-peer” transfer. The new model is different in one key respect. Before a file is sent from one user to another, the central server checks to make sure that the recipient is a paid-up subscriber. The file is then scrambled by the sender in such a way that only the recipient can read it. This scrambling is applied each time a file is sent from one user to another, and only Napster’s software can reverse it.

This new model is more secure, but less open, than Napster’s current approach. The scrambling means that downloaded files cannot be transferred on to portable music players, or “burned” on to CDs, as they can now. Only the Napster software can unscramble files for these purposes—probably for an extra fee. The service will also limit the audio quality of files, to show that Napster is not out to replace CDs.

The new service will have three levels of membership. A trial membership will be available for free. After that, a basic membership (for less than $5 a month) will entitle users to a certain number of file downloads per month. Full membership (for $6-10 a month) will allow unlimited downloads. Napster has 64m registered users, and surveys suggest that around 70% of them might be prepared to pay for it. Napster assumes only around 5% will sign up initially, but even this would produce big revenues.

One of the main sticking points in negotations with record companies so far, according to Hank Barry, Napster’s chief executive, has been the question of how to divide this money. So instead of offering a fixed share of revenues, Napster says it will make guaranteed payments of at least $200m a year for five years, to be divided between record companies and other rights-holders on the basis of usage-tracking data. Of this, $150m is for the Big Five, and $50m for independent record firms and artists. But Napster’s offer should be seen as a starting point for talks, rather than a take-it-or-leave-it package. Any final deal is likely to include a mix of fixed payments and a percentage of overall revenues. The big labels have already signalled that the current offer is inadequate.

With Napster close to being shut down, Mr Barry wants a “ceasefire” so that a settlement can be agreed: “We want users to know that if Napster is shut down...it is because the record companies don’t want to take their money.” Even if no deal is struck, Napster will continue to fight its corner, and will launch its subscription service in July anyway. The legal battle, notes Mr Barry, pertains to the old Napster, not the new one.

Napster faces a tightrope walk over the next few weeks. Although it still insists it is not breaking the law, it must shut down its existing free service if it is to get users to switch to the new service. But only by keeping the existing service running can it keep its community together and put pressure on the record companies to co-operate.

Napster's tack now is to claim that it could be a saviour of sorts for the record companies. Andreas Schmidt, chief executive of Bertelsmann's e-commerce group, notes that CD sales are growing by just 2.3% a year. Napster-like services, he suggests, are just the marketing tools the industry needs to rejuvenate itself. Additional revenues from such services and from the resulting extra sales of CDs could, he claims, increase revenues by some 30% by 2005.

Napster is offering the record companies something they have been unable to create on their own: a way to profit from online music distribution. If they refuse to deal, the big winner might turn out to be one of their own, Bertelsmann. Not only does it hold an option to convert a $60m loan to Napster into a 58% stake, which would sky-rocket in value if the new service takes off. Even better, if the other record companies refuse to sign up, it could find itself creaming off most of the new Napster's revenues, while its rivals' songs continue being swapped for free. If that thought doesn't focus record executives' minds, nothing will.

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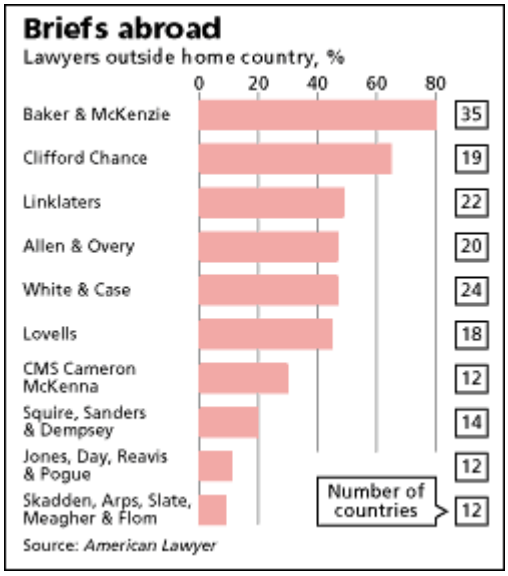
Law firms

Unrequited love

Feb 22nd 2001
From The Economist print edition

AFTER Gaedertz, a German law firm, failed to agree last month to a merger with Norton Rose, a British firm, it decided to break itself up. Gaedertz's office in Hamburg linked with Latham & Watkins, an American firm; the team in Cologne joined Norton Rose anyway; and the Berlin office has yet to decide what to do. The different bits of the firm could not agree on which partner to go with; but all of them did agree that international partners are essential for survival in the globalising legal world.

That is the general consensus in Europe, and Clifford Chance, a British firm, has been the most aggressive in pursuit of a global strategy. It became the world's largest law firm after its merger with New York's Rogers & Wells and Germany's Pünder, Volhard, Weber & Axster in 1999, and it may add yet more (smaller) practices in Europe and Asia to its empire this year.



New York firms, on the other hand, tend to be sceptical about the Clifford Chance route. "We do not see demand for a global firm from our clients," says John Ettinger at Davis Polk & Wardwell. Davis Polk, like many of its peers in New York, practises only American law and prefers the "best friends" approach to globalisation. Best friends co-operate closely in their respective jurisdictions but keep their independence. Davis Polk's partner in Germany, for instance, is Hengeler Müller Weitzel Wirtz, the only top German firm that still prefers to go it alone.

Some New Yorkers have deliberately limited themselves to a narrow local market. Schulte Roth & Zabel, for example, is very profitable thanks to its specialisation in alternative investment, in particular in hedge funds. About 50 of the firm's 275 lawyers advise on alternative investment.

The city's lawyers are lucky that New York's financial community has remained remarkably loyal to a very small circle of local firms. Morgan Stanley turns to Davis Polk for its legal advice, while Goldman Sachs sticks mostly to Sullivan & Cromwell. "In the past ten years we have seen an increasing percentage of the best-paying litigation and deal work consolidating at fewer and fewer elite firms—all New York-based," says *The American Lawyer*, a trade magazine.

However, New York's elite continues to remain aloof from international deals for reasons other than internal strategy. One reason is the small matter of partners' profits. At most leading New York firms, the partners' share of profits depends on how much business they bring in: they eat what they kill. This system sits uneasily with London firms, which believe that their "lockstep" system—sharing profits among partners according to seniority—encourages teamwork. It is difficult to persuade New Yorkers to accept the big pay cut that can come with a switch to a lockstep calculation.

Over the past decade, therefore, London's leading firms have felt obliged to set up in the world's largest capital market on their own. But, despite costly expansion, they have signally failed to make decent inroads into the American market. This sobering experience has left them with an even greater desire to link up with New Yorkers.

The one big carrot that London firms can dangle in front of reticent Americans is the increasing importance of cross-border deals in Europe. These are highly profitable for the legal profession, and the hottest market today is Germany, which until a decade ago was virtually inaccessible to non-German law firms. A supreme-court decision in 1992 allowed German law firms to merge, and triggered a flurry of

deals.

Shown the cold shoulder in America, many London firms have turned to German practices for partners: Linklaters merged with Oppenhoff & Rädler last month, and Clifford Chance with Pünder. Freshfields Bruckhaus Deringer is the result of a merger between Freshfields, a British firm, and two top German practices.

Most New Yorkers still reckon that they can remain competitive in Europe by sprucing up their operations and hiring local lawyers. But they could change their minds if a top New York firm were to merge with a top London firm. When rumours of a merger between Freshfields and Cleary, Gottlieb, Steen & Hamilton circulated late last year, New Yorkers pricked up their ears. The two firms have never been in talks, says Alan Peck, Freshfields' chief executive. But Freshfields continues to go courting across the Atlantic.

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About sponsorship

Face value

Uneasy lies the head

Feb 22nd 2001
From The Economist print edition

Sir Martin Sorrell is the successful boss of the world's biggest advertising group. Why is he so insecure?

EVEN at a whisker over five foot six, Sir Martin Sorrell should be feeling invincible. Last year was a dream for the British chief executive of WPP. First he was knighted. Then he bagged Young & Rubicam, an American marketing group, for $4.7 billion in the biggest takeover in advertising history, after defusing a public row that almost scuppered the deal. Buying Y&R catapulted WPP over America's Omnicom to become the world's biggest marketing-services group—spanning advertising, research, public relations and branding. The firm's latest annual results, announced on February 21st, showed it holding up well, with operating profit growing by 43% to $631m.

Not bad for a self-confessed bean counter. And it took him just 15 years to build the firm from scratch. WPP started life as Wire and Plastics Products, a company making shopping baskets. That was before Sir Martin, fresh from his job as finance director at Saatchi & Saatchi, an ad agency, went shopping himself. He snapped up J. Walter Thompson (JWT) in 1987—the first purchase of a listed American advertising agency by a foreign rival. In another hostile takeover in 1989, he swallowed Ogilvy & Mather, prompting a livid David Ogilvy to splutter about "that odious little shit".

It seems odd then that, at the peak of his powers, 56-year-old Sir Martin is not enjoying it all more. "I never feel secure," he says. "I started WPP with two people in a room and I worry that we can go back to that."

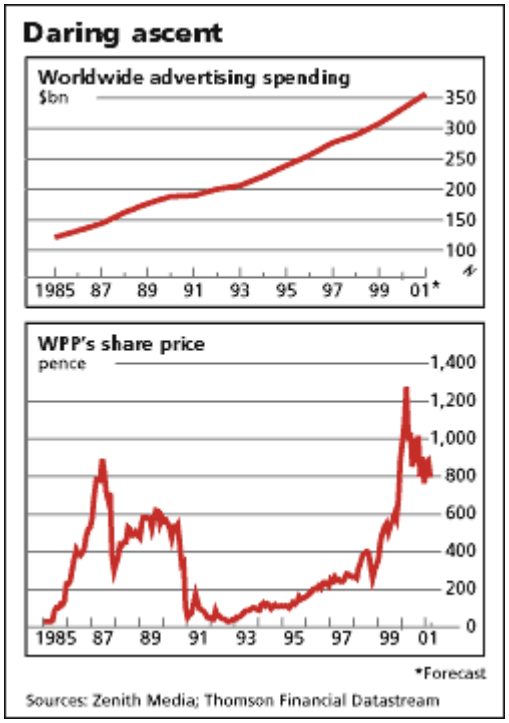
His unusual history helps explain why. He is one of the few managers to have taken his company to the edge of bankruptcy and survived. Already over-leveraged after buying JWT—16 times WPP's size—his decision to pay for Ogilvy & Mather with cash and convertible shares buried WPP in debt. When recession hit in 1990, WPP's share price tanked and Sir Martin was forced to surrender a slice of his company to its banks. But despite calls for his head, Sir Martin not only hung on to his job, but negotiated himself a fat compensation package for rescuing a company he had almost killed.

Having made an acquisition, in Y&R, that skews half his business to America just as an American recession threatens, Sir Martin might be forgiven for feeling a touch of déjà vu on the timing front. Though he, like Alan Greenspan, does not believe that the party is over for the American economy, he admits that WPP's heady growth of 15% in revenue last year is probably "as good as it gets". He predicts a slowdown to 7% in 2001.

This, however, is not what keeps Sir Martin awake at night. Growth of 7% would be impressive in a market where the rise in advertising spend is expected to halve to 4.7% this year in North America. Nor is WPP the same company it was in 1990. Debt and interest cover are healthy, and half of its revenues now come from services such as public relations, which are growing faster than traditional advertising. Faithful shareholders—except those who bought in the heady late-1980s—have been rewarded (see chart). And recession or no, Sir Martin has no doubts about strengthening the business in America: "The world is Americanising. Anyone who doesn't understand the power of the American economy fails."

What really bothers Sir Martin is a new short-termism—what he calls "an erosion of loyalty". Expectations of easy gains have made it hard to retain talent, he says: "Nobody is willing to serve an apprenticeship any more." His father, who ran the largest

electrical retailer in Britain, taught him the importance of persistence in tough times. It was this philosophy that kept Sir Martin plugging away at his economics degree at Cambridge even though, he laughs, “I worked hard and got nowhere” (in fact, he passed, just). And it gave him the doggedness to hang on to WPP. Investors, though, have grown less tolerant of failure. Sir Martin thinks he would be fired today for the mistakes he made in 1990.



Middle man

This sense of insecurity has kept Sir Martin relatively humble. That is a laudable attribute in a company chief, but it may have its downside. It has, for instance, turned him into something of a control freak. The events of a decade ago made Sir Martin re-examine his own role. “I asked myself: ‘Do I add value from the centre?’” Since then, Sir Martin’s involvement has become as intense as that of Jack Welch at General Electric. By contrast, rivals such as John Wren at Omnicom and the recently retired Phil Geier at Interpublic have been fairly passive bosses of holding companies that let their operating businesses function autonomously.

Sir Martin’s hands-on style has mostly brought benefits. By persuading WPP’s warring agencies to share skills and to work with their less glamorous colleagues in direct marketing or research, he can offer clients a one-stop shop of integrated services.

But WPP is not General Electric. In a people business, interference can stifle creativity. Sir Martin makes much of valuing talent. But he is considered by some to be better at re-engineering operations than managing ponytailed copywriters. Though traditional advertising may matter less than it once did, an inspired TV spot can still lift a client’s sales like nothing else. In a business built on egos, loyalty may be best secured by giving people room to breathe. Sir Martin may even find that he can then breathe easier himself.

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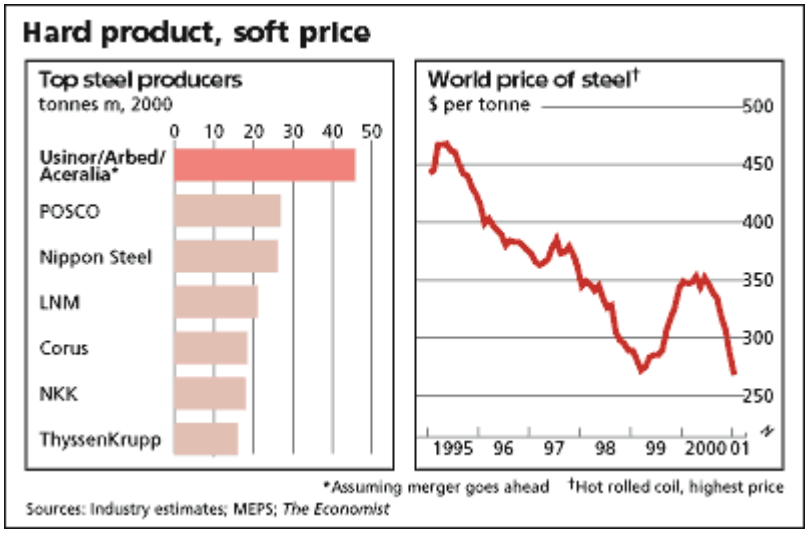
The steel industry

Welding bells

Feb 22nd 2001 | PARIS
From The Economist print edition

EVEN by "old economy" standards, steel making is hardly a business that sets pulses racing. Yet heartbeats quickened in Europe's struggling steel industry on February 19th. Usinor of France, Arbed of Luxembourg and Spain's Aceralia announced a three-way merger to form a group with 110,000 employees and annual sales of *euro*30 billion ($27.3 billion). If approved by regulators, the deal will create the world's biggest steel group, capable of producing 45m tonnes of steel each year (see chart).



It is a big if. The European Commission is expected to spend months poring over the proposed deal, as Francis Mer, boss of Usinor and co-chairman of the new group, acknowledged when it was unveiled. Last year, the commission blocked a three-way tie-up in Europe's aluminium industry, despite evidence that the companies involved had become uncompetitive on their own. The steel companies know that if they are to avoid the same fate, they must be prepared to make big concessions.

Regulators will be particularly interested in the new group's 40% share of Europe's market for flat-rolled carbon steel, used mostly for making cars and white goods. Globally, the group's share of this market is a less threatening 10%—testimony to the steel industry's fragmented nature. Peter Dupont, an analyst with Commerzbank, says the new company will anyway try to shrink its flat-rolled carbon steel production by focusing on its most efficient plants. Some 60% of *euro*2 billion in projected cost-savings will come from this tactic.

The proposed merger brings a spot of cheer to a troubled business. Earlier this month, Corus, an Anglo-Dutch steel group, said it will lay off 6,000 workers and cut production by one-fifth in Britain, where operations have been ravaged by sterling's strength. Most steel companies have low stockmarket valuations, even though they are profitable (Usinor and its partners have a combined market value of just *euro*7 billion). Fears of an economic slowdown, most acute in America, combine with evidence of global over-production to keep investors leery. Steel prices have been falling and are at their lowest for around 20 years.

This week's deal could provoke others into action. ThyssenKrupp, Germany's biggest steel maker, held abortive merger talks with Usinor last year, then failed to spin off its steel operation. The latest combination puts it under renewed pressure to do a deal of its own. Again, though, it will rely on the European Commission's accepting the argument that global, not local, factors should settle antitrust questions.

This argument has some merit, mainly because price pressure clearly comes from the ability to ship steel from low-cost developing countries to more mature economies. In important ways, though, the steel industry remains far from global. Assuming the three-way merger goes ahead, the new group and its two nearest rivals combined will control a little over 10% of the market, paltry compared with the concentration in other basic industries. Big markets, particularly America's, remain hopelessly fragmented, with little sign that they can be quickly and profitably consolidated.

Indeed, asked whether the new group intends to expand beyond Europe, Mr Mer stressed that the more important challenge will be getting the merger right. That will take at least two years and will involve sensitive local negotations over job losses and plant closures. Perhaps the latest deal is less a harbinger of globalisation than a pragmatic effort to create a powerhouse in Europe.

Is that the right strategy? Mr Dupont points out that Europe's most profitable flat-rolled steel maker last year, per tonne produced, was Austria's VA Stahl. By itself, Usinor is capable of producing 19m tonnes of such steel annually. VA Stahl can make just 4m tonnes. Size, it seems, isn't everything.

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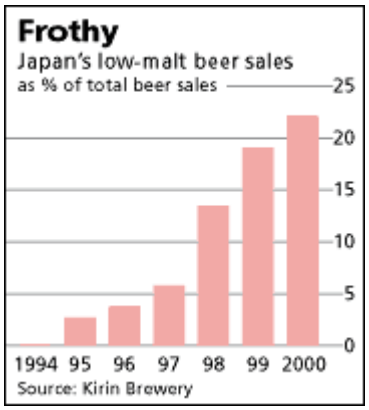
A right old brewhaha in Japan

Feb 22nd 2001 | TOKYO
From The Economist print edition

HAPPOSHU, or low-malt beer, seems an unlikely battleground for Japan's top brewers. But Asahi, the second-biggest beer maker, is hoping that Honnama, its first low-malt offering, launched on February 21st, will oust Kirin from its traditional position as industry leader.

Low-malt beer was concocted several years ago by brewers looking to take advantage of the fact that beer is taxed in Japan according to its malt content. *Happoshu* is made with all sorts of malt substitutes. Thus, although it looks like beer and tastes more or less like beer (except to finicky beer lovers), it is not taxed like beer. With recession-weary consumers counting their pennies, the budget brew, which costs two-thirds of the original, has been a surprise hit. It is, in fact, the only bit of the beer market that is growing. Although they barely existed six years ago, low-malt brews now account for over one-fifth of beer sales in Japan (see chart).



Kirin's dominance of the low-malt market has helped it retain the top spot. But it is fast losing its lead, having ceded ground to Asahi in most other categories. Seven years ago, half the beer drunk in Japan was Kirin's, while Asahi had only a quarter of the market. But the global success of Asahi's Super Dry, the world's third-best-selling beer, has badly dented Kirin's sales; now it has 38% of the market, only slightly above Asahi, with 36%.

If Asahi's new brew is a hit, Kirin could lose its crown within a month, reckons Hiroshi Saji of Mizuho Securities. Before its launch, orders for Asahi's low-malt offering were coming in at triple the usual rate for new beers. The brewer's trendy brand and marketing skills will help. But Kirin is fighting back. It relaunched its own low-malt beer last month. It has also decided to publish its sales data bi-annually instead of monthly. That way, even if it is overtaken, it cannot be officially dethroned until its next batch of numbers comes out in June.

For all the vigour the brewers are putting into their latest battle, it is a fight they could both end up losing. Sales of ordinary beer have been falling for four years; with no signs of a robust economic recovery, the industry's prospects look bleak. And as promising as the growth in low-malt beers has been, it has come at the expense of other beers. Even Asahi, which has high hopes for Honnama, knows that it is not a question of whether its flagship Super Dry will be cannibalised by its cut-price product, but by how much.

Such worries pale in the face of an even scarier prospect: that the finance ministry might take the fizz out of low-malt brews by raising tax rates on them next year. It has tried this before, insisting that what looks, tastes and is made like normal beer should also be taxed like it. Beer makers, arguing that such changes deter them from developing creative new products, were told that they should not be inventing new goods just to exploit tax loopholes.

Although the beer firms won the first round of this battle—thanks to the ruling Liberal Democratic Party, which feared a consumer backlash—the bureaucrats have not given up. But the brewers may be worrying too much in any case. Anecdotal evidence suggests that more and more customers prefer low-malt beer to the ordinary sort. In trying to devise a tax dodge, the brewers may have accidentally stumbled on a winning recipe.

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British retailing

Chemistry upset

Feb 22nd 2001 | NOTTINGHAM
From The Economist print edition

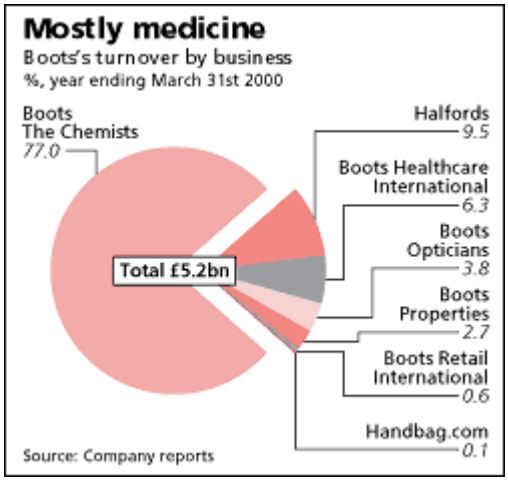
Boots is Britain's most trusted retailer. So why is its future in doubt?

LIKE cricket and warm beer, Boots is part of the fabric of Britain. The biggest employer in the East Midlands, its headquarters and factories stand on an estate the size of Monaco just outside Nottingham, which locals joke is a city on the edge of Boots. The site, with its own hospital and a power station that sells enough surplus electricity to the National Grid to light up a fair-sized town, sits cheek-by-jowl with Nottingham University. Its buildings were donated by Jesse Boot, who started dispensing pills from his father's shop in the 1870s.

Today, Boots is Britain's largest pharmacy chain with 1,400 shops selling everything from sandwiches to skin cream. Like Marks & Spencer (M&S)—until recently itself an iconic British retailer—Boots is also a brand. More than two-fifths of its £5.2 billion ($7.9 billion) sales comes from own-label products; its oval blue-and-white logo is trusted like no other. Boots makes Britain's best-selling cosmetics range, No 7, its biggest suntan lotion, Soltan, and its number one painkiller, Nurofen. "If Boots makes it, people don't think twice about shoving it down their kids' throats or rubbing it on their faces," says Bruce Hubbard, an analyst at Schroder Salomon Smith Barney.

Until recently the Boots formula worked a treat. With a quarter of the British health and beauty market, the firm's dominance was unrivalled. Being a manufacturer of its own products gave it an edge, ensuring consistent quality, rapid innovation and big returns. In the absence of serious competition, Boots could charge high prices.

That strength, however, has become a liability. In the mid-1990s, supermarket chains began targeting the group's core health, beauty and drug-retail business, which accounts for three-quarters of sales (see chart). As cosmetics and toiletries became commodities, the supermarkets, with their vast buying power, lower costs and increasingly trusted brands, gained market share. In five years, Tesco has become Britain's second-biggest health and beauty retailer with 12.5% of the market. Now Asda, a supermarket chain owned by America's Wal-Mart, is tightening the screws, announcing plans last month to triple the number of in-store pharmacies and to open optician centres. Boots has managed to maintain market share so far, but new figures from Verdict, a consultancy, suggest this is starting to slip—a claim that Boots hotly disputes.



Steve Russell, Boots's chief executive, denies that, like M&S, Boots has overestimated customer loyalty. He insists that price competition is less of a concern than it was a year ago. However, the numbers tell a different story. Boots's same-store sales (which count stores open for a year or more) fell 1.5% in the 13 weeks leading up to Christmas—a poor result compared with other high-street retailers. Investors worry that the group's margins are under pressure and its return on assets is slipping. The result is a share price that has lagged Britain's FT All-Share index by 42% since the start of 1999. Some are comparing Boots to M&S and talking of a profit collapse. Behind the scenes, there are signs of panic. Analysts grumble that Boots has begun flattering its trading figures by, for example, counting ongoing costs as exceptional items.

To its credit, Boots's management admits it has a problem. "We are in a constant spotlight on every bloody week's trading," says Mr Russell. He is trying to do something about it: Boots is working on a reorganisation that could divide the high-street chain into small convenience shops and larger "wellness

centres”, as well as selling or demerging some peripheral divisions.

A shake-up is all the more necessary because Mr Russell’s attempts so far to rekindle growth look unconvincing. As with many British retailers, trying to take the Boots brand overseas—into the Netherlands, Thailand and Japan—has been a disaster. Barry Clare, head of Boots International, has acted quickly to pull out of the Netherlands and is retrenching in Thailand. He is happier with Boots Healthcare International (BHI), the subsidiary responsible for brands such as Nurofen, Strepsils and Clearasil. But at 4% of group profits, its influence on Boots’s performance is still small.

In the short term, stretching the brand beyond retailing to higher-margin services looks more promising. Boots already offers eye and dental care. One of its London stores has converted space once used to sell pots and pans into a pamper parlour offering laser hair removal and dry-float treatments. But it is not clear that Boots can run services well. Its most established, Boots Opticians, is losing ground to more specialised rivals. Mr Russell admits that he has “definitely not yet proved that the Boots brand can stretch”. Nor has he been tough enough on cost-cutting, especially store closures and layoffs.

This predicament makes Boots, currently valued at £5.5 billion, a break-up candidate. Two of its businesses, BHI and Halfords, a car-parts chain, could fetch a combined £2 billion. The remainder, implicitly valued at £3.5 billion, is really worth more than £5 billion, argues Société Générale, a bank, given its strong cash flow, vast property portfolio and resilient brand. That could make Boots prey for a financial buyer, a British supermarket chain or an overseas rival such as America’s Walgreens, which is eager to get its hands on valuable pharmacy licences in a new market. Before long, the visitors to Boots’s impressive headquarters may include barbarians hammering on the gates.

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South African governance

The end of minority rule

Feb 22nd 2001 | JOHANNESBURG
From The Economist print edition

WHEN they were rebels, South Africa's current rulers used to threaten to nationalise big business. But their rise to power has instead brought better corporate governance. South African firms are now more efficient and transparent than they were under apartheid. The end of sanctions left them free to woo foreign investors, who demanded an end to the clubbiness that blighted boardrooms in the old days.

Even the announcement this month that De Beers, the diamond cartel, will delist its shares was a sign of progress. Taking the firm private will not, of course, make De Beers' affairs more transparent. But the proposal will end the cross-shareholding between the cartel and Anglo American, a mining giant. De Beers owns 35% of Anglo and Anglo owns 32% of De Beers. In London, where Anglo moved its main listing from Johannesburg in 1999, such cross-holdings are frowned upon, because they reduce liquidity and make hostile takeovers difficult.

Anglo has transformed itself in the past decade. In the 1980s the firm controlled more than half of the Johannesburg stock exchange and had tentacles in everything from fruit juice to cars. Under sanctions, South African firms could not expand overseas, so they diversified at home, often into businesses they knew little about. Since the early 1990s, however, the cleverer firms have sold off peripheral subsidiaries. Miners such as Anglo now concentrate on mining and textile firms stick to their knitting.

In 1989, some 17 of the 20 largest firms listed in Johannesburg were controlled by blocks of insiders. These insiders would typically own a minority of shares, but enough to prevent dispersed outside shareholders, to whom little corporate information was disclosed, from challenging management. Conflicts of interest were common: firms linked by cross-shareholdings bought products and services from each other whether it was sensible or not. Other ruses for raising capital without surrendering control included issuing "N-shares", which paid dividends but carried little voting power, and erecting "pyramids", which allowed founding families to control operating companies with only a small stake, through a series of holding companies.

Such opaque structures deterred outside investors—several conglomerates traded at discounts of up to 40% of the underlying value of their assets. To resurrect this value, the insiders had to let go. By 1999, the number of minority-controlled firms in the Johannesburg top 20 had fallen to 11. The total number of firms with pyramid structures fell from 53 in 1989 to 27 in 1999, according to Nick Segal of the University of Cape Town and Stephan Malherbe, a consultant. Firms such as South African Breweries, Billiton, a miner, and Old Mutual, an insurer, became transparent enough to list in London. Accounting standards are improving, and the authorities have started to pursue insider traders, although none has yet been successfully prosecuted.

The break-up of the old conglomerates coincided with attempts to create a new class of black businessmen. Because many old firms were trying to sell non-core businesses, there was much for the new black elite to buy. But because they did not have the money to buy majority stakes, they copied some of the bad habits of the old South Africa, issuing N-shares and trying to hide information from other shareholders. This helped cause some spectacular share-price collapses.

Black capitalists are now trying to tidy up their act. Last year, the Johannesburg exchange announced that no new listings would be allowed of firms with N-shares or pyramid structures. In the new South Africa, shareholders can no longer be trampled with impunity.

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The smell test

Feb 22nd 2001 | MOSCOW
From The Economist print edition

Western financiers hold their noses when they do business in Russia

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WITH the right advice, achieving respectability is merely a question of time and money. After Russia's default and financial crash in August 1998, foreign investors seemed to have lost their illusions. Practices previously dismissed as mere teething troubles, such as grotesque standards of corporate governance, the abuse of minority shareholders, and contemptuous disregard for creditors, suddenly became glaring, ingrained flaws. One scalded banker said at the time that he would "rather eat nuclear waste" than invest in Russia again. Of course in Russia it is possible to do both.

That was then. Investment banks in Russia, as well as lawyers, accountants, consultants and public-relations flaks, are getting ever busier. In 1996-97, says one veteran foreign financier in Moscow, "we made our money selling crappy Russian shares to foreigners. Now we are making our money buying the same shares back and selling them to Russians." When Russian companies were profitless, unrestructured monsters, tycoons sold shares in them at high prices to westerners. Now—thanks to high commodity prices, devaluation and, in some cases, a bit of restructuring—these companies are making money, and the same managers are buying back their shares on the cheap.

It is encouraging that Russian managers see their own companies as worth investing in, rather than as places to loot. Some tycoons even realise that to boost their company's credit-rating and share price through better management means more wealth, respectability—and western help. But in companies where guns were carried to board meetings not that long ago, meeting western standards of transparency and ethical behaviour is tricky.

It poses problems for western providers of professional services. Many local companies get into strange transactions, and foreign advisers are often involved. In 1999 Credit Suisse First Boston (CSFB) lent some $215m to an obscure Cyprus-based company, Reforma, whose beneficial owners are obscure, so that it could buy a 9% stake in Russia's biggest oil company, Lukoil. The transaction was done at a strikingly low price. In the past, such deals have been a way for Russian bosses to siphon assets and cash from companies they run to companies they own. The Reforma case has infuriated the European Bank for Reconstruction and Development, which is trying to clarify Lukoil's finances before lending it $150m.

PricewaterhouseCoopers (PWC), the world's biggest accountancy firm, has been involved in two of the most controversial audits in Russia. One, of the central bank, failed to find anything wrong in the shunting of large portions of Russia's hard-currency reserves to another obscure offshore company, FIMACO. When news of FIMACO's role came out in 1998, the IMF was infuriated and embarrassed. A

second audit, of Gazprom, Russia's largest company, missed the fact that the energy giant was doing $1 billion a year of business with a little-known intermediary called Stroytransgaz. According to documents filed with the Russian authorities, Stroytransgaz is largely owned by relatives of Gazprom's top management. Gazprom is now under fire from the Russian government and from minority shareholders, who want it to come clean about its ties to intermediary firms. Hoping to clear its name, Gazprom has announced that none other than PricewaterhouseCoopers will review the whole thing. PwC politely declines to confirm that it is taking on the new audit.

A third messy business concerns Norilsk Nickel, the country's main producer of platinum-group metals. The management has diluted the holdings of investors by swapping their stakes with shares in a small London-based trading company. Shares in Norilsk plunged on the news. The management was advised by Deutsche Bank, which helped it obtain a so-called "fairness opinion". Nicholas Jordan, a senior Deutsche banker dealing with Russia, says: "I don't think the company [Norilsk] acted appropriately. I do not think any Russian company acts appropriately." His view seems to be that everything that happened is legal under Russian law, and that businesses in the West, given the chance, would do the same.

Deutsche Bank and Mr Jordan are also involved in another controversial affair, the neutering of NTV, the last remaining national, non-state television station in Russia. Deutsche is advising Gazprom-Media, which is acting (on behalf of the government, most assume) to recover its debts from NTV and to change the management. Gazprom-Media has also just gained a well-connected Moscow PR firm, run by a former western correspondent, Lawrence McDonnell. "Everyone has the right to have their story told," he says.

Russian laws are so woolly and so poorly enforced that legality really means having the right lawyer. Yet some westerners are increasingly uneasy about the moral climate in Moscow.There may be more than reputations at risk. Western auditors of Russian firms with listings in New York risk lawsuits there from investors who claim that Russian companies' cozy links with related parties have been negligently ignored.

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Shareholder rights in Russia

Minority what?

Feb 22nd 2001 | MOSCOW
From The Economist print edition

Business continues as murkily as usual for Russia's tycoons

LOSING money to a confidence trickster once is bad luck. Falling for the same scams time and again suggests wilful foolishness. The biggest companies in Russia still hide their cashflow and assets from minority shareholders, who happen mainly to be foreign, and still contemptuously brush off protests. Oddly, some outsiders still find this surprising.

The current bunch of scandals come from every important bit of the Russian economy. The country's biggest company, Gazprom, is ignoring a legal requirement for an outside audit. Lukoil, the biggest oil company, has—once again—missed a promised deadline for publishing western-style accounts. Another huge energy company, UES, has largely ignored the interests of minority shareholders in a controversial restructuring plan. The national savings bank, Sberbank, plans to issue a large chunk of new shares at a 75% discount to book value. Finally, Norilsk Nickel, the country's most profitable metals producer, is fleecing existing shareholders to the advantage of a shell trading company controlled by the management.

Excuses in each case range from the feeble to the non-existent. Gazprom has never convincingly explained why it gives so much preferential business to Itera, an American-based outfit that started as a trading company in 1993 and has now become the seventh-largest hydrocarbons company, by reserves, in the world. A ginger group representing 10% of Gazprom's shareholders is trying to exercise its right under Russian law to an independent audit of the relationship. But the company's management, tersely citing "business ethics", refuses to comply.

Lukoil's failure to publish meaningful accounts is now a standing joke amongst Moscow financiers. In October, the company angrily denied media reports that it was planning to miss its promised deadline for the accounts at the end of 2000. But miss it the company did—issuing, with considerable fanfare, merely an unaudited half-year statement. It promised just one more month's delay until the end of January. That deadline passed without even an apology. Then Lukoil said that, really, truly, hand-on-heart, the 1998-99 accounts would be released in March. Now the deadline has moved again—to June. Lukoil, incidentally, is among the best-run companies in Russia.

Sberbank's story is threadbare. It says that it needs to raise more capital, but declines to explain why it is choosing to do so in such an apparently disadvantageous way. The strong suspicion is that the cheap shares are intended for a well-connected senior Russian official, perhaps as part of a retirement package.

All of this should be enough, you might think, to attract the authorities' attention. Russia's lightweight financial regulators have indeed taken Norilsk Nickel to court over its share swap, though so far unsuccessfully. The government has also blocked UES's original restructuring plan, which would have sold generating capacity on the cheap to well-connected local tycoons. The state audit body is investigating Gazprom's relationship with Itera. But these moves seem mostly driven by the state's own interests—to keep the country lit and heated, and to improve its collection of taxes—rather than by any desire to improve Russia's abysmal record of corporate governance.

A handful of Russian tycoons have realised that at least the semblance of transparency can make them richer. Two big oil companies, Sibneft and Yukos, have smartened up their public image, with a corresponding effect on their share price. But James Fenkner at Troika Dialog, the biggest Russian brokerage, reckons that bad corporate governance accounts for a $54 billion discount on what Russian equities would otherwise be worth. If the discount narrowed, foreign shareholders would be thrilled. The people who matter in Russia have rather different priorities.

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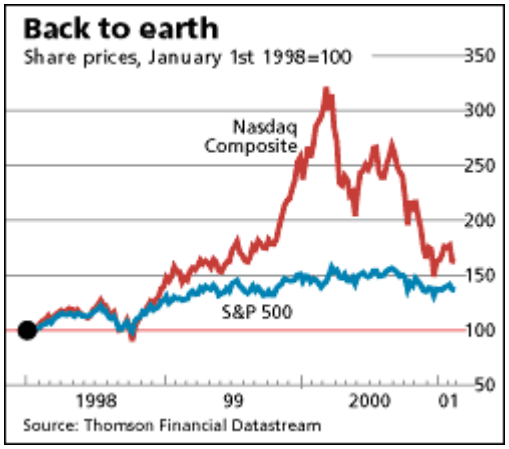
American shares

Which way next?

Feb 22nd 2001 | NEW YORK
From The Economist print edition

PAVLOV should have worked with Wall Street's bulls. With tiresome predictability, the best-known of these still declare the stockmarket to be oversold, share prices to be at a bottom, with a rally imminent. Their upbeat predictions now fall on ever more sceptical ears, especially since the combined interest-rate cut of one percentage point in January has not produced—at least, not yet—a sustained recovery in share prices. By February 22nd the Nasdaq index had lost all of the 25% it gained after the Federal Reserve unexpectedly cut rates on January 3rd, and is back to less than half its value of a year earlier. The S&P 500, dominated by bigger companies, is also down this year, by 3%, and the Dow Jones Industrial Average is below where it began the year.

Investors are having to choose between putting faith in the old Wall Street adage, "don't fight the Fed"—which holds that falling interest rates lead to higher share prices—and reacting to a profit outlook that is swiftly deteriorating. A stream of disappointing profit announcements, and growing worries about what lies ahead, are undermining confidence in the powers of Alan Greenspan, the chairman of the Federal Reserve, to work their usual magic. Downbeat news from Internet and technology companies, such as Cisco and Nortel, which were until recently the market's darlings, have been particularly painful. Shares in Cisco, Sun Microsystems, JDS Uniphase and Amazon are all trading at their lowest in at least a year.



In public, at least, Mr Greenspan is taking comfort from Wall Street's equity analysts, who continue to be upbeat about the longer term. "One must presume", the chairman observes, that they "obtain most of their insights from corporate managers." Perhaps that presumes too much. Analysts on average are currently forecasting a healthy 15.7% increase in profits in 2002 for companies in the S&P 500; this suggests they expect companies' current difficulties to be shortlived. But whether this is based on information from corporate managers or anywhere else is debatable. Analysts struggle to come up with meaningful profit predictions for even a few weeks ahead. When they project beyond the current year, they almost invariably pick a number in the mid-teens. They presume, perhaps, that it would be nice if it happened.

Managers ought to be giving analysts better insights into the near-term outlook, you might suppose. This is deteriorating quickly. According to First Call, a research firm, analysts were forecasting as recently as December 1st that profits for the S&P 500 would be 10.5% higher in the first quarter of 2001 than a year earlier. Now they expect profits to be 3% lower. For the technology sector, the change in expectations is more dramatic, from a forecast that first-quarter profits will grow by 15.2% to predictions of an 18.5% decline.

For this year as a whole, analysts' forecasts for the S&P 500 have dropped from an early-December forecast of 11.5% growth in profits to 4.5% now. Equity strategists at J.P. Morgan think that even this is too optimistic. They use a forecasting model that relies, in particular, on the close historical relationship between company profits and two variables, total corporate investment in equipment and the commodity-price index published by *The Economist*. On their current, not especially gloomy, outlook for the economy (significant weakness but no "recession") they expect an 11% average fall in profits this year, compared with 2000.

Weak stockmarkets have trimmed the ratio of share prices to corporate earnings. The price-earnings (p/e) ratio of the S&P 500, based on most recent profits, is down from 36 in mid-1999 to 25. A p/e of 25 is still high compared with almost any period before 1997. Moreover, some obvious "value" shares that

could have been snapped up when they were ignored during the tech bubble of a year ago have since risen sharply. The shares of many technology companies may now look cheap, but it will be hard to be sure until their managers express even a small degree of confidence that the profit outlook has stopped worsening.

Whilst the equity markets have quickly lost their fizz after the Fed's rate cuts, this is not true of the corporate-bond markets. These have seen trading liquidity increase and prices rise. Equity strategists at Salomon Smith Barney point out that, in the past, tightening credit spreads have been a reliable leading indicator of rising share prices. They expect history to repeat itself now.

Certainly, the same mix that applies now—interest-rate cuts and a ballooning money supply—led both in late 1998 and late 1999 to sharp rallies in share prices. Monetary loosening seems likely to continue. The bond markets expect Mr Greenspan to read recent inflation data, unexpectedly high, as a statistical blip, and to cut interest rates by at least a quarter-point, perhaps even before the next scheduled Fed meeting on March 20th. If this does not stop America's share prices falling, what will?

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Economics focus

The cutting edge

Feb 22nd 2001
From The Economist print edition

Foreign direct investment is "globalisation" in its most potent form. Predicting its pattern is difficult, but a new study makes a brave attempt

ECONOMISTS and governments agree these days on the crucial importance of foreign direct investment. They see it both as the global market's "seal of approval" on a country's policies and prospects, and as a force, especially in developing countries, for far-reaching economic change. This consensus is surprising when you remember that FDI remains politically sensitive in many poor, and some not-so-poor, countries. But the benefits are so great that reservations on this account have been put aside. The point about FDI is that it is far more than mere "capital": it is a uniquely potent bundle of capital, contacts, and managerial and technological knowledge. It is the cutting edge of globalisation.

The outlook for FDI—in total, and country by country—is therefore a matter of great interest. Forecasting it, however, is far from easy. The determinants are complicated, and not always susceptible to measurement. Up to now, so far as this column is aware, detailed forecasts have not been attempted. In a report* published this week, the Economist Intelligence Unit, a sister company of *The Economist*, has ventured into this uncharted territory. It provides a forecast for FDI extending to 2005 for no fewer than 60 countries (accounting for virtually all of the world's actual and projected flows of FDI).

The main difficulty arises from the fact that FDI depends closely on what the EIU calls the business environment—a necessarily broad term that includes, on the firm's definition, 70 separate indicators. Some of these are political, and to the extent that they can be measured at all have to be gauged through surveys that ask investors questions such as, "Is the quality of the bureaucracy and its ability to carry out government policy very high, high, moderate, low or very low?" It is one thing to compile this kind of evidence into a backward-looking aggregate which can then be tested for its ability to explain past movements in FDI. It is quite another to use it for forecasting—because to do that the researcher has to predict how political and other conditions will change.

There is no alternative but to blend together different kinds of information. First, take whatever evidence econometrics can yield about the way the forces driving FDI—size of host-country market, expected growth, input costs, geography and natural resources, and the policy framework—have worked in the past. Next, add conventional forecasts of relevant economic aggregates. Third, unavoidably, make more qualitative and speculative assessments of changes in other, "non-economic", conditions. All this the study tries to do. It is academically impure, because it has to be. But the workings and the supporting information are in plain view, and the results are very interesting.

Global FDI flows are projected to shrink markedly this year, from $1.1 trillion in 2000 to less than $800 billion. Almost all of the reduction is forecast to be in FDI to rich countries, driven by the slowdown in America and by the diminishing pace of mergers and acquisitions (which are a principal driver of FDI in the developed economies). FDI to poor countries merely pauses, at around $220 billion. In subsequent years, flows recover across the board, but growth in flows to poor countries continues to outpace, modestly, growth in flows to rich ones. As a result, the developing countries' share of global FDI inflows rises slightly, to 29%, by 2005. By then, the global stock of FDI will have risen to more than $10 trillion, according to the report, from less than $6 trillion last year.

As the table shows, the United States, unsurprisingly, is expected to dominate the rankings in 2001-05, much as it does today, accounting for more than 25% of global inflows. The analysis shows that America's business environment is about as good as one would infer, statistically speaking, from its income. Britain, in contrast, is one of 14 countries with a somewhat better business

environment than its income would lead you to expect (or, to put it less kindly, with a lower income than its business environment would lead you to expect). Britain is expected to remain the world's second-biggest recipient of FDI, accounting for more than 9% of the total in 2001-05. In terms of FDI per head, Britain currently ranks seventh, behind (in descending order) Ireland, Belgium, Hong Kong, Sweden, Singapore and the Netherlands. On this measure, the United States ranks fourteenth.

Magnetic

Biggest recipients of FDI, 2001-05 forecast annual average

Country	Inflow $bn	% of world inflows
United States	236.2	26.6
Britain	82.5	9.3
Germany	68.9	7.8
China	57.6	6.5
France	41.8	4.7
Netherlands	36.1	4.1
Belgium	30.2	3.4
Canada	29.6	3.3
Hong Kong	20.5	2.3
Brazil	18.8	2.1

Source: EIU

The study's most encouraging finding is that scores for business environment are rising almost everywhere. FDI is a competitive undertaking, but not a zero-sum game: rising scores for business environment drive the totals higher. Comparing 2001-05 with 1996-2000, the EIU marks down only two countries, Hong Kong and Malaysia, and in neither case by enough to alter the overall assessment—"very good" for Hong Kong and "good" for Malaysia. South Korea, Thailand, Poland, Hungary and Mexico are among those expected to move in the other direction, from "moderate" to "good"; likewise Germany, Denmark and France, from "good" to "very good".

If all goes well, the process may entrench itself, with FDI fuelling improvements in business conditions, and improving conditions spurring additional FDI. The report scotches the view that the world is anywhere near a natural ceiling on FDI: the scope for further investment is increased, rather than diminished, by the trends it describes and predicts. If the EIU is right, globalisation is continuing to gather momentum, and has much further yet to run.

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* World Investment Prospects. The report costs £395 or $595 and will be available from February 26th at http://store.eiu.com.

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With-profits policies in Britain

Let the light in

Feb 22nd 2001
From The Economist print edition

The troubles at Equitable Life have shaken faith in with-profits policies. The life-insurance industry is now under pressure to spell out what purpose these policies serve

THE woes at Equitable Life, the venerable life-insurance company that had to close to new business at the end of last year, continue to trouble Britain's long-term savings industry. Equitable found a saviour earlier this month when Halifax agreed to buy the life assurer's operating assets, sales force and non-profit and unit-linked business for a down-payment of £500m ($725m). But the bank is withholding a further £500m until Equitable can cap the now notorious guarantee of minimum annuity rates that blew a £1.5 billion hole in its main with-profits fund last year. The cap will be difficult to achieve, since it requires agreement between two warring factions of policyholders—a minority with the valuable guarantee and the majority that must stump up to pay for it.

Equitable's troubles have called into question the supposed security of with-profits policies which, with an accumulated value of over £300 billion, have been a mainstay of long-term saving in Britain. For a generation at least, the safe and sure way to save, whether to buy a house or to build a retirement fund, has been through a with-profits policy with one of the country's big life-insurance companies. This distinctive product, which has few parallels in other countries, offers a way of getting returns from equities and bonds without nerve-wracking direct exposure to the financial markets. Rather, savers put their money into the companies' big with-profits funds, through policies that offer a smoothing of investment returns. They are protected from the rigours of a bear market, but do not gain fully from a bull run.

The 1m savers who put their faith in Equitable's with-profits fund have learnt that these policies can be riskier than they seem. The Association of British Insurers insists that Equitable's difficulties are unique, but with-profits policies as a class are now in the firing line. Earlier this month, the Consumers' Association launched a broadside against them. The Financial Services Authority (FSA), which now regulates the insurance industry, is carrying out an urgent review. In a speech on February 23rd, Howard Davies, the FSA's chairman, is to acknowledge their merits in making equity investment accessible to many savers, not least because of the attraction of investment smoothing. But he will also speak of the "opaque superstructure, obscure marketing and high charges" of the traditional with-profits business. This lack of transparency, he says, is "one of the most important reasons why mis-selling has been so easy".

The central problem with the with-profits policy is that what you see is not necessarily what you get. Investors are often unaware of the charging structure, which typically "front-loads" expenses on to the initial payments. Yet early surrenders are common—over one-fifth of endowment policies are discontinued after four years—suggesting that consumers have a poor understanding of the products. A related issue is the way investment returns accrue to policies. With-profits policies build up in value through two forms of bonus—reversionary and final. Reversionary bonuses are credited to the policy every year and cannot then be taken away; however, their share of total returns fell sharply in the 1970s and 1980s. In contrast, the share of final bonuses, credited to the policy at the end of the term, rose as life insurers sought the freedom to invest in equities, which pay higher returns but are riskier. Final (or "terminal") bonuses now account for over half of total returns for 25-year policies. Their allocation remains entirely at the discretion of the insurer.

Since lack of transparency is the central charge against with-profits policies, the practices of actuaries, the high priests of Britain's life-insurance industry, have been called into question. Actuaries determine how much can safely be distributed in bonuses. The Institute of Actuaries issued a report this week from a working party which recommended the provision of much clearer information about the way with-profits policies work and are managed. This approach chimes with the industry's voluntary "Raising Standards" scheme, due to come into operation this autumn. This will encourage providers to sell clear

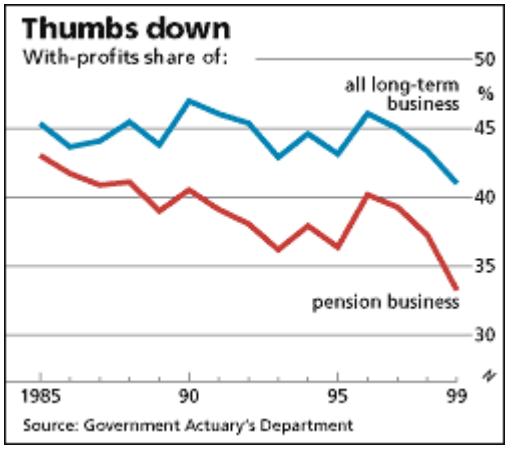
and appropriate products and will vet them for the right to use a quality mark.

Whether this flurry of activity will be enough to satisfy the FSA is open to question. In his speech this week, Mr Davies will spell out that the regulator's review is taking a hard look at the "virtually unfettered discretion" that the directors and actuaries of life insurers have in distributing bonuses. Neither the industry's quality-mark scheme nor the actuaries' proposals address this, since discretion over final bonus payments is essential if life insurers are to invest in equities.

Who needs them?

If the industry has seen the light on transparency, its conversion also reflects the fact that the with-profits policy is losing ground. Its share of all long-term business with life insurers has recently shrunk, from 46% in 1996 to 41% in 1999 (see chart). In pensions, the decline has been even steeper, with demand switching to unit-linked policies offering direct exposure to the markets. This matters, since pensions are the fastest-growing sector for life insurers and now account for two-thirds of their long-term business.

Despite this sharp fall in the popularity of with-profits policies, the industry maintains that they offer good value to investors who stay the course. Average returns on ten-year policies in the 1990s were 11% a year—only a little less than those for unit trusts (mutual funds) that invested in British equities, and a lot less volatile. Yet this raises the question whether investors could not achieve a similar smoothing by investing in a sensible portfolio of pooled investments. For younger pension savers, it will in any case generally be more sensible to be fully invested in equities, which historically have offered the highest returns. The Equitable Life debacle underscores that there can be unpredictable risks on with-profits funds that unit-trust savers do not face. What is clear is that the industry can no longer ask for investors' trust. Those days are over.



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Hedge funds in Europe

The big, the bold and the nimble

Feb 22nd 2001
From The Economist print edition

Traditional European money managers are rushing to launch hedge funds. Some will wish they hadn't

OVER the past couple of years nearly all of the biggest fund-management firms in the City of London have seen some of their best and brightest portfolio managers leave. There was nothing they could do. Many managers left not to join rival companies, but to set up on their own to run hedge funds. Traditional fund-management firms have been annoyed and intrigued in roughly equal measure. Surely, a growing number of them conclude, there is merit in offering in-house hedge funds themselves— first in an attempt to capture some of the market that their bright young leavers are chasing and, second, as a way of dissuading others from doing the same. Merrill Lynch, HSBC and Henderson Investors, to name a few, have all recently launched their own funds. Gartmore, one of the pioneers of in-house hedge funds, now has a veritable stable.

Hedge funds are notoriously hard to define: they come in so many different forms. Yet, as compared with orthodox money management, they have several things in common. For a start, when it comes to investing in shares or bonds, traditional pension funds, unit trusts (mutual funds) and the like typically have just two choices: they either hold a particular share or bond, or they don't. Hedge funds are more flexible. They can go long (that is, own shares) or go short (sell shares they have borrowed in the hope of buying them back more cheaply later on). They can borrow money to buy shares, as a way of leveraging their bets, and they can use derivatives like options and futures either to increase potential returns by increasing risk or, indeed, to reduce risk. Traditional fund managers have to worry about performance measured against a benchmark index, and they face detailed restrictions imposed by their clients about how far they may deviate from those benchmarks. Absolute performance, a more aristocratic notion, is the realm of hedge funds.

Moreover, the kinds of choices available to hedge funds apply not just to equities. Such funds are not limited in the number of instruments in which they may invest—currencies, commodities and over-the-counter derivatives are all fair game. And they do not need markets to go up in order to make money. The possibilities for hedge funds to profit, then, are that much greater, and their managers like to pay themselves accordingly. Typically, hedge funds charge investors an annual management fee of 1-2%, as well as one-fifth of all the profits they make. The first charge is no different from the one levied by orthodox fund-management firms; the second is why portfolio managers are leaving in droves.

Do hedge funds make more money, though? That is hard to say. Because of the risks they are perceived to carry, hedge funds are open for investment usually only to professional investors and to the rich and wary. Funds for the most part are structured as private partnerships and are frequently domiciled off-shore, where they are lightly taxed and regulated. Their performance is little scrutinised. One consultancy

for alternative investment, Tremont TASS, claims that the industry's overall return last year was 4.9%. That may seem meagre, but looks respectable when set against the Standard & Poor's 500 index, which lost 10.1%, London's FTSE 100, which lost 10.2%, or the Nasdaq, which lost 39%. And some hedge funds did spectacularly well.

A crucial feature of hedge funds is that they can be run to produce a low correlation with the returns of the two traditional asset classes of equities and bonds. So European investors can reasonably claim to use hedge funds as a form of diversification. More than 100 new funds have sprung up in the past decade to cater for them, now managing around $50 billion. Increasingly, traditional European fund-management firms are elbowing in.

They argue that established institutions have advantages over the small "boutiques" that usually manage hedge funds. They have, they say, the necessary technical systems, back offices, brand names and marketing departments to put small firms in the shade, along with platoons of research analysts already at their disposal. They have deep pockets that allow them to test hedge funds properly before launching them on the public. HSBC, for instance, ran a "shadow" hedge-fund portfolio for a year before it rolled the real one out.

Yet some things the large houses cannot do so well. They cannot pay the managers of their in-house funds anything like the rates of independent fund managers—if only because that would cause a revolt amongst their "long-only" lot. Nor can they insist that hedge-fund managers put their individual wealth at risk in the funds that they manage. This is a common practice, and a healthy inducement to good management, at independent funds.

Established firms cannot aspire to match the lean overheads of small firms that outsource their back-office, marketing and even research functions. They cannot offer the relaxed, informal atmosphere of a boutique like Claremont Capital Management, whose three managers left big City firms in search of more convivial surroundings. (Schroders, one of those deserted firms, has since launched its own hedge fund.) And they must expect to fall under suspicion that in-house hedge-fund managers might have the knowledge to "front-run" trades—that is, profit by knowing what the "long-only" managers are about to buy or sell, and trade just before them.

Since in-house hedge funds cannot offer the rewards and freedoms of unattached boutiques, the walkout of the best and brightest at large institutions will continue. Adrian Holmes was a top manager at Merrill Lynch Investment Managers. An early sceptic of technology shares, he had few ways at Merrill of acting on his scepticism. He left to start his own fund. John Schroer, a healthcare and biotech wizard at Invesco, recently quit in favour of more money and independence. Not all succeed on their own. Some lack entrepreneurial flair. Others are good at "buying long", adept at spotting cheap shares, but hopeless at "shorting" overvalued ones. There are some disaster stories. Crispin Odey left Baring Asset Management to set up shop on his own ten years ago. After some blunders in 1994, when he sold shares short that later surged, investors bailed out of his fund. Assets under his control slid from some $1 billion to $40m, he says. It took him years to rebuild his reputation.

Large firms running hedge funds may find themselves handicapped in other ways. Size itself, for instance, can be a disadvantage. "Good hedge funds," says Alexander Ineichen of UBS Warburg and an expert on the industry, "need to give money back to investors if they grow too big." Hedge funds are run aggressively, and need to be able to get into and, even more important, out of a position quickly. That may be hard if positions are large. A recent report by Morgan Stanley found that it is the smallest funds, with less than $25m to invest, which perform best. Although it is difficult to determine an "ideal" size for a hedge fund, more than $1 billion under management is deemed by many to be unwieldy. It so happens, that is just the kind of size at which the economies of scale at large firms—in areas like back-office management and marketing—might start to apply.

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Bank reform in Japan

Seriously?

Feb 22nd 2001 | TOKYO
From The Economist print edition

THIS might, just might, be a turning-point for the crisis at Japan's banks. Just as everyone was beginning to think the banks would stagger along half-dead for ever, a trio of powers has emerged—and it seems to be bent on real reform. In a striking break with the past, the Financial Services Agency (FSA), the Bank of Japan (BOJ), and the *Keidanren*, the powerful group representing business interests, have all reached an understanding. As early as next month, a broad set of financial and structural reforms to clean up the banks and their borrowers could be set out.

Hakuo Yanagisawa, the minister in charge of financial affairs, is leading the attack. This week he demanded that banks write off their bad loans rather than just set aside provisions to cover potential losses. That practice often understates bad loans, which have worsened at many banks, leading to a second round of losses. Mr Yanagisawa has also urged banks to speed up their bad-loan disposals. Banks have ditched some ¥70 trillion ($620 billion) of non-performing loans over the past ten years; that much and more still sits on their books.

If banks get more serious about excising bad debts, many will end up in the red when they next close their books. Mr Yanagisawa has indicated that as long as they show they are serious about cleaning up, then the FSA will tolerate this. In turn, the central bank, a long-time advocate of wholesale bank reform, is also ready to help, by setting up a mechanism to provide needed liquidity to cash-strapped banks.

Many weak, indebted borrowers would be driven out of business should the banks start writing off bad debts and cutting credit lines. That is why the *Keidanren*'s support for painful reform is startling, if welcome. Its chairman, Takashi Imai, conceded this week for the first time that pain, at least in the short term, was necessary to revive corporate fortunes. "Unless some of the players jostling around [in the corporate sector] leave the field," he said, "we won't be able to shake off this unhealthy deflation."

There is little doubt that the weakness of the stockmarkets, which are hovering close to a 15-year low, has prompted the latest flurry of reforming zeal. But whether banks can be cajoled into acting is still unclear. With luck, they will grab this opportunity to clean up their books. After all, most are already being pushed to the brink by huge bankruptcies, actual or pending, such the collapse of Phoenix Resort, a resort operator, which failed on February 19th with ¥270 billion of liabilities. If they fail to act, the FSA could use the threat of stricter inspections, for one, to prod them.

Dealing with the fallout in the corporate sector will be complex. Some of the weaker bits, such as the construction and retailing sectors, will need some long-term strategies mapped out to cope with unemployment and retraining before they can be trimmed. To this end, Mr Yanagisawa has joined hands with the Ministry of Economy, Trade and Industry, and the Ministry of Land, Infrastructure and Transport. If he can co-operate with these ministries, which have always fiercely protected their industries, then he will indeed have performed a miracle.

Mr Yanagisawa has already accomplished a good deal since he was appointed minister (for the second time) last December. He still has a long way to go. For starters, he must explain the nitty-gritty of his reforms, and how they will be carried out. One issue is how the banks are to write off their bad loans. There are several ways this could be done. Simply to forgive debt would raise questions of moral hazard, inviting companies to take wild risks on the assumption that they would be bailed out. Selling bad loans to third parties in the market for distressed debt would help banks, but would leave the problems of the corporate sector unresolved. One solution might be to split companies into good bits, which survive, and bad bits, which are got rid of.

Another matter which has not yet been addressed is the issue of management responsibility. The managers that got banks into this mess are still at their desks, and it is hard to see how revived banks

can prosper in future under such a benighted lot. Furthermore, Mr Yanagisawa's assumption that banks will not need another injection of public funds in order to survive these massive write-offs may also prove mistaken.

The biggest risk is that Mr Yanagisawa may not be around to push through his reforms. Cutting off credit lines and forcing companies to go bust would meet with a deal of opposition, not least from the ruling Liberal Democratic Party (LDP). Yoshiro Mori, the prime minister, gets more unpopular by the day. Mr Mori, a pork-barrel politician, is unlikely to back full-scale bank reform in his present, vulnerable state. Yet should he go, there are no guarantees that Mr Yanagisawa will be asked to stay on to complete the job.

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Situation vacant

Feb 22nd 2001 | NEW YORK
From The Economist print edition

AMONG the positions remaining unfilled a month into the Bush administration is the chairmanship of the Securities and Exchange Commission (SEC). Three candidates are believed to have rejected the job: John Mack, until last month the president of Morgan Stanley; Donald Marron, formerly chief executive of Paine Webber and now at UBS; and Joseph Grundfest, a Californian academic and former SEC commissioner. Consider those putative refusals an example of President Bush's initial good luck.

Reuters

After Levitt, who?

If the Wall Street candidates took the view that they were unsuited to the job, they were probably right: loyalties to their former profession might have been a problem. The outgoing chairman, Arthur Levitt, proved to be a rare unequivocal success of the Clinton administration, because he found a way to deal with the post's conflicting demands.

Mr Levitt's gift was to love the markets in which he had spent a long career, to understand that they are peopled by potential rogues, and to struggle to contain that regrettable tendency. His method for making the markets work better was simply to champion the cause of the individual investor. In doing that you could say he understood the secret of capitalism.

Mr Levitt was adamant that the quality, distribution and understanding of information had to be improved. None of these changes would be particularly helpful to well-positioned insiders. All three are needed in a market which outsiders can use to invest with confidence—a market capable of supplying capital cheaply and efficiently to companies. As much through preaching as through actions, Mr Levitt addressed real weaknesses in the American financial markets: deceptive sales practices, lousy accounting standards and high costs. He has left the markets in a far better shape to weather downturns.

An SEC under his successor must be prepared to investigate shenanigans. It needs to act against companies that skirt tough new disclosure rules. It must hammer technology companies for loose accounting standards, which include concealing the true cost of stock options, a main form of compensation for executives and staff. And it must outlaw doubtful sales tactics for complex investment products—notably, the one most loved by insurers, variable annuities. Making friends must be a low priority.

The inherited structure of America's regulatory apparatus is no help. It is a mess. Banks, brokerages, investment funds and insurers are overseen by overlapping state and national agencies. Retirement savings, which is where millions of Americans and the financial markets interact, is regulated—and poorly—by the Department of Labour.

These limitations were masked somewhat during Mr Levitt's tenure, thanks to his strong relationships within government. Potential candidates who are smart might be right to shy away from the job. Still, some good candidates exist. On Wall Street Daniel Tully, formerly of Merrill Lynch, and Frank Zarb, of what was then Smith Barney, have both served as chairmen of Nasdaq during its transformation from sleaze-pit to semi-transparent, competitive market. That was a fine accomplishment, and not a bad training for the bigger job that now stands vacant.

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Reading minds

Feb 22nd 2001 | SAN FRANCISCO
From The Economist print edition

This year's meeting of the American Association for the Advancement of Science (AAAS) was in San Francisco. Among the topics discussed were the causes of dyslexia, the genetics of grapevines, the role of marine reserves in boosting fish stocks, the strange inheritance of autoimmune disease, and what modular robots can do. First, dyslexia

ROD PAIGE, America's education secretary, put it succinctly. "Reading is the new civil right," he said. No modern society can function without a literate population, and no one can function well in a modern society without being literate. But nature is no respecter of rights, and around 10% of the population has had this right compromised by biology.

Even a decade ago, that would have been a contentious assertion. People who left school unable to read were often dismissed as lazy. No doubt, some were. But many were simply unable to learn the skill. These people are dyslexic, and the origins and treatment of their plight were the subject of an illuminating session at this year's AAAS meeting.

Alphabet soup

Four key findings suggest that dyslexia is an organic problem rather than a motivational one. First, the brain anatomy of dyslexics differs in subtle ways from that of non-dyslexics. Second, their brain functions, as measured by electrical activity and high-tech scanning, are dissimilar. Third, they have behavioural differences other than an inability to read. Fourth, mounting evidence suggests their condition is tied to particular genes.

Anatomical differences between the brains of dyslexics and non-dyslexics were first noticed in 1979. Albert Galaburda of Harvard Medical School found two sorts of microscopic flaws in the language centres of dyslexics' brains. These are called ectopias and microgyria.

The language centres of the brain, known as Broca's area and Wernicke's area, after the 19th-century researchers who discovered them, are part of the cerebral cortex on the left-hand side of the organ. That cortex consists of six layers of cells. An ectopia is a collection of several hundred nerve cells that have pushed their way up from the lower cortical layers into the outermost one, where they are not found in normal circumstances. A microgyrus is a small fold in the cortex that results in the normal complement of six layers being reduced to four.

More recent work has shown that the formation of microgyria throws the pattern of neural connections

between the language centres and the rest of the brain into confusion. Glen Rosen, one of Dr Galaburda's colleagues, and a speaker at the meeting, has created microgyria in rat embryos by holding cold needles to the surface of their developing brains. As adults, these rats have a reduced ability to distinguish between two sounds played in succession less than a fifth of a second apart, even when rewarded with food to make the effort. The inability to distinguish between sounds in quick succession is a symptom of dyslexia in people, too.

Jo Lo Turco of the University of Connecticut, who also attended the meeting, did a similar test on mice that had genetically induced ectopias. Instead of gauging their responses with pellets of food, he probed them with recording electrodes. These showed that unless the two tones were sufficiently separated in time, only one electrical signal, rather than two, was generated by the brains of the affected mice in response.

In addition to defects in the language centres, a set of brain abnormalities has also been found in the visual pathways of dyslexics—smaller-than-normal cells in layers of the lateral geniculate nucleus. This is a spot which contains some of the nerve tracts that transmit information from the eyes to the visual cortex at the back of the brain. That is significant because dyslexia is essentially an inability to deal with linguistic information in visual form.

Sensory information flows through the geniculate nuclei in two parts. Auditory information is processed through the medial segment of the nucleus. The visual pathway runs through the lateral section, and its information is split into two streams. One, the magnocellular path, processes information rapidly, but at low resolution. The other, the parvocellular path, is slower, but of higher resolution. Electrophysiological studies have shown that the magnocellular path does not operate properly in dyslexics: it is one-twentieth of a second slower in its response than in normal subjects. That is probably connected with the fact that the magno cells in dyslexics are almost 30% smaller than they should be, and nicely parallels the results obtained by Dr Lo Turco.

This parallel failure of visual and auditory systems is seen elsewhere in the brain. Guinevere Eden and Thomas Zeffiro, who work at Georgetown University in Washington, DC, have found an example of it using a brain-scanning technique called functional magnetic-resonance imaging (fMRI).

One of the fundamental characteristics of dyslexia is difficulty in handling written phonemes (the units of sound which make up a language). By putting dyslexic people in their scanner, and giving them tasks such as removing phonemes from the beginnings of words (for example showing them the word "rat" and asking them to pronounce what would be left after the "r" was taken off), Dr Eden and Dr Zeffiro were able to stimulate both the visual and the auditory pathways. They found that, compared with non-dyslexic controls, their subjects showed low activity in a part of the brain called Brodmann's Area 37. This is another place where visual and auditory information is handled in close proximity.

Dr Eden and Dr Zeffiro have also compared the brain activity of dyslexics and readers who were given a task that has nothing to do with reading. One of the minor symptoms of the problem is a difficulty in detecting visual motion. So the task that Dr Eden and Dr Zeffiro devised was to look at a field of small spots on a computer screen, four-fifths of them stationary and the rest drifting slowly to the left or the right. The subject of the test had to tell the investigator which way the spots were drifting.

When people performed this task inside the scanner, a significantly smaller part of the brain in Brodmann's Area 37 lit up in dyslexics than non-dyslexics. Because this trick does not require any reading skills it might be employed to check children for incipient dyslexia before they began school. They could then be given special tuition.

To further their understanding of what was going on, Dr Eden and Dr Zeffiro then joined forces with Frank Wood and his colleagues at Wake Forest University School of Medicine in North Carolina. This institution specialises in dyslexia, and Dr Eden and Dr Zeffiro were able to borrow some of its patients and stick them in the fMRI machine at Georgetown University. They did so before and after the individuals involved had been on an intensive programme designed to improve their reading. They also scanned the brains of some control dyslexics who were not on the programme.

The results are intriguing. After the programme, those enrolled showed enhanced brain activity while reading. This activity was not, however, on the left-hand side. Instead, it was in areas on the right-hand side exactly corresponding to the language centres in the opposite hemisphere. The reading programme had somehow "recruited" suitable batches of nerve cells in a place not normally associated with language-processing.

A question of upbringing

The underlying trigger for these problems is another of Dr Wood's interests. Since the abnormal brain tissue in dyslexia has completed its development by the fifth month of gestation, the cause of the disorder must be acting before that. This suggests that it may be genetic, and Dr Wood is one of several researchers trying to identify the mutant genes. Work so far indicates that at least two genes are associated with the condition, and perhaps as many as five.

The strongest candidate of all is on chromosome six—that is, the sixth largest of the 22 sorts of non-sex chromosome found in human cells. The exact gene or genes involved (Dr Wood suspects there may be two of them) have not yet been identified, although the recent publication of the sequence of the human genome greatly facilitates the search. In the meantime, Dr Wood can follow them around in families with dyslexic members by looking for certain DNA markers, which can be detected on nearby bits of the chromosome. (These markers include genetic features such as microsatellites, explained in this article.) His work, and studies by others in America, Germany, Britain and Tanzania, all point to the same bit of the chromosome.

Beyond chromosome six, Dr Wood has found evidence that a gene on chromosome one also seems to play a part in some cases of dyslexia. And other research groups have uncovered evidence of dyslexia-inducing mutations in genes on chromosomes two and 15. Work is under way to pin down those mutations' links to the disorder as well.

Many people argue about the relative contributions of genes and the environment to human behaviour and human disease. Dyslexia is both a behavioural problem and, in some sense, a disease. It looks as if it may have a profoundly biological origin and genetic roots. Yet viewed in another light, its cause is almost purely environmental. People brought up in illiterate societies are hardly troubled by the other symptoms. It was the invention of writing, not mutations of the genes, that caused the difficulty. Nature or nurture? Take your pick.

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Genetics

In vino veritas

Feb 22nd 2001
From The Economist print edition

Genetic analysis has shown that some "noble" grapes are less aristocratic than many people thought

NO OENOPHILE needs reminding that grape varieties can make all the difference between divine wine and plain plonk. But the genesis of those varieties is frequently mysterious, even in Europe where most of them originate. Add to that the confusion of a transatlantic passage, and the pedigree of some of the varieties in California's vineyards can be as murky as shaken vintage port.

Carole Meredith of the University of California, Davis, has dedicated the past few years to clearing up this genealogical mess. By applying genetic techniques more familiar in the courtroom than the pressing house, she has been able to clarify the relationships between many of the great wine-making grapes that dominate both the old and the new worlds. On the way she has shown that a number of noble grapes have some surprisingly vulgar ancestors.

Dr Meredith's technique relies on stretches of DNA called microsatellites. These are places where short strings of the chemical "letters" which make up DNA are repeated. In any given species, these microsatellites are found in the same places on the chromosomes of different individuals, but the number of repeats in each place differs from one individual to another. These differences are passed from parent to offspring in the same way that genes are: each individual gets half his microsatellites from his mother and half from his father. So, by looking at enough different microsatellite locations, it is possible to identify someone's parents with a high degree of confidence.

In humans, microsatellite analysis works well for individuals, but is not much use when it comes to looking at entire populations. Fortunately, this is not a problem in grape detection since all the plants belonging to a particular variety of grapevine are actually one individual, genetically speaking. That is because commercial grapevines are propagated from cuttings and are genetically identical clones. This means that Dr Meredith's method can reach back into the distant past, and catch a glimpse of the act of cross-fertilisation between two different varieties of grapevine that created the strain that the cuttings have perpetuated.

Dr Meredith first came to fame four years ago, when she showed that cabernet sauvignon, widely reckoned the noblest grape of them all, was a hybrid of cabernet franc and sauvignon blanc. She then revealed that a Californian variety called petite sirah was actually two different grapes called durif and peloursin that even wine snobs were unable to tell apart. She also demonstrated that zinfandel, a grape seen by many as uniquely Californian, is actually the same as primitivo, an habitué of Sicily.

Since then, she has torn into the pedigrees of several other well known varieties. A collaboration with Jean-Michel Boursiquot, the curator of France's national grapevine-variety collection in Montpellier, has revealed that at least 16 varieties, including chardonnay, gamay and aligote, are actually siblings. One of their parents is pinot (which should not, Dr Meredith insists, be called "pinot noir", since the various pinot grapes, whether noir, blanc or grigio, seem to be minor aberrations caused by mutations within the same clone). That will ruffle no feathers. The other parent, though, is gouais blanc, a grape so *déclassé* that the French authorities have twice tried to ban it completely.

In case you might think that Dr Meredith's sole concern is demolishing inflated reputations, the genetic fingerprinting of grapes in this way has some practical applications, too. In the case of zinfandel, it is being used to try to trace the variety back to its roots. (It is not actually native to Sicily, having been imported there a few centuries ago.) This would help California's growers by allowing them to find new "zin" mutants with which to spice up their existing products, blending subtly new flavours into them.

So far, the trail has led to the Dalmatian coast of Croatia—which is thought to be the homeland of gouais blanc, as well. Dr Meredith has not yet found zinfandel/primitivo lurking in any of the vineyards there, though several close relatives have turned up. But she reckons that a few more summers in these idyllic, sun-kissed islands will allow her to track it down. There's no hurry.

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The Richard Casement internship

Feb 22nd 2001
From The Economist print edition

We invite applications for the 2001 Richard Casement internship. This is for a would-be journalist under 25 to spend three months of the summer on the newspaper, writing about science and technology. Our aim is more to discover writing talent in a science student than scientific aptitude in a budding journalist. Applicants should write a letter introducing themselves, along with an original article of about 600 words which they think suitable for publication in the Science and Technology section. They should be prepared to come for an interview in London or New York, this April, at their own expense. Applications must reach us by March 6th. They should be sent by e-mail to casement@economist.com

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Autoimmune disease

Mother's ruin

Feb 22nd 2001
From The Economist print edition

SCLERODERMA, which hardens the skin and then goes on to immobilise many of the body's internal organs, looks very different from multiple sclerosis, which cripples its victims by stripping away the protective sheaths of their nerve cells. Systemic lupus erythematosus, which can fatally damage the kidneys, looks different again.

Yet they have something in common. They and more than 70 other diseases—including such familiar ailments as psoriasis and rheumatoid arthritis—are all the result of the immune system mistaking one or another of the proteins that the body makes as being "foreign" rather than "self". This misidentification means that the immune system attacks cells containing that protein as if they were invading bacteria or viruses.

Many researchers view such autoimmune disorders as members of a family, with the same underlying mechanism and varying only in the details of what has gone wrong and where. According to the researchers who addressed the AAAS session on autoimmune diseases, that familial relationship helps to explain why these illnesses do not obey the usual rules of inheritance.

Noel Rose, an immunologist at Johns Hopkins University in Baltimore, pointed out that if these diseases were entirely genetic then if one identical twin had such a disease the other might be expected to come down with it, too. In fact, no autoimmune disease has more than a 50% chance of appearing in one twin if the other is affected, and with some diseases, such as early-onset or "type I" diabetes, that figure is only about 5%. In Dr Rose's view, what is often being inherited is not a genetic predisposition to a particular autoimmune disease, but rather a generalised predisposition to the whole class of them. Which disorder actually develops is more or less accidental.

This generalised predisposition has been demonstrated by another of the session's speakers, Denise Faustman, of the Massachusetts General Hospital in Boston. She has been studying a strain of laboratory mice which has been bred so that its members are genetically identical. These mice tend to develop a form of type I diabetes that closely mimics its human counterpart. Despite their genetic identity, however, about 20% of them are healthy.

This led Dr Faustman to wonder what would happen if she mated healthy males and females. The offspring of these unions did not become diabetic either, but some of the females in the resulting litters developed rheumatoid arthritis when they reached reproductive age. This suggests that the same set of "autoimmunity" genes can result in different outcomes.

Such findings also highlight a second curious feature of autoimmune diseases—that in all species studied so far, they affect females more than males. Women are three times as likely to be afflicted as men. The reason seems to be that besides genetic inheritance, autoimmunity is subject to a second, and very odd, form of "heredity": you can get it from your children.

This reverse inheritance happens during pregnancy and is caused by cells from the fetus making their way into the mother's bloodstream and staying there for years, a condition known as "microchimerism". J. Lee Nelson, at the Fred Hutchinson Cancer Centre in Seattle, has found that women with scleroderma have at least ten times more fetal cells in their blood after the birth of a baby than mothers who are free of the dreadful disease.

Dr Nelson speculates that such microchimerism is disrupting normal interactions in the mother's immune system. This interference might cause scleroderma, which resembles graft-versus-host disease, another nasty immune reaction caused by a mixing of cells which occurs when a mismatched tissue transplant attacks the body of its new owner. Much more work needs to be done to understand exactly how fetal

cells might wreak such havoc in the mother. Sharper than a serpent's tooth, indeed.

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Your flexible friend

Feb 22nd 2001
From The Economist print edition

IN THE film “Terminator 2” the villainous “liquid metal” P-1000 assassin-bot was able to change shape so that it could ooze through narrow bars, or turn its extremities into blades. Mark Yim of Xerox’s Palo Alto Research Centre (PARC) has more limited and benign ambitions. As he explained to the AAAS meeting, rather than building murderous psychotic androids, he is trying to create a robot for use in search and rescue operations, deep-sea mining and space exploration. But like the P-1000, Dr Yim’s machine can change its outward form.

The PARC Polybot is made of a dozen or so identical modules. When ordered to do so by its operator, it changes shape on the move by rebuilding itself out of these modules. According to the terrain, it can adopt one of three different arrangements. When crossing a level surface it becomes a looped tractor tread. For travelling down stairs or climbing over an obstacle it configures itself into a caterpillar. On rough ground it changes into a four-legged “spider”.

To achieve this trick, the segments talk to each other using infra-red transceivers. They can then locate one another, align themselves using small onboard motors, and lock and unlock from each other at will. The computing power needed to control all this is distributed among separate processors—one for each segment—although there is a control centre in one module, which is as close as the Polybot comes to having a brain.

Besides versatility, Dr Yim hopes the general idea of reconfigurable modular robots will ultimately create cheap and durable devices. Their robustness would come from creating a system in which the failure of one or two modules would not matter. Savings in cost would arise from the system’s modularity—that is, from having to manufacture only one sort of component in order to build a wide variety of different devices.

Having proved the principle with a dozen modules, Dr Yim and his colleagues are working on a more ambitious version. This machine, which should be ready later this year, will have 200 modules. Eventually, it will also be able to control its own behaviour. Let us hope it does not develop any personality disorders.

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Marine conservation

Net benefits

Feb 22nd 2001
From The Economist print edition

IN THE early 1990s, Canada's Atlantic cod fishery collapsed. Thousands of people were put out of work, communities in Newfoundland and Nova Scotia were devastated, and there were tears, fighting and recriminations over what should have been done to prevent it. Around the world, many other fisheries are dangerously close to following the Atlantic cod's example.

To counter this risk, complex rules have often been introduced to curb fishing and give the fish population a chance to stabilise without putting fishermen out of work. These take the form of limits on the number of fish that can be caught in a given period, restrictions on the season's total catch, controls on the numbers of days or weeks of fishing permitted, and regulations governing the kind of gear and nets that can be used. None of these methods, however, seems to have the desired effect.

At the AAAS meeting, a group of scientists proposed a radical and, on the face of it, surprising idea. If fishing in certain areas is banned altogether, according to these researchers, the overall catch can be increased, and in a sustainable way. What they are suggesting is a network of fish parks.

The idea is the result of a survey carried out by America's National Centre for Ecological Analysis and Synthesis in Santa Barbara, California. It looked at 100 "no-take" reserves around the world, where fishing is banned completely.

According to Robert Warner, a marine biologist at the University of California, Santa Barbara, and one of the survey's researchers, these reserves showed average increases of 91% in the number of fish, 31% in the size of fish and 23% in the number of fish species present. Those increases occurred within two years of starting the protection scheme. Crucially, the beneficial effects spilled over into areas where fishing was still permitted. In St Lucia, for example, a third of the country's fishing grounds were designated no-take areas in 1995. Within three years, commercially important fish stocks had doubled in the seas adjacent to those reserves.

Another benefit of reserves is that the rules are simple to enforce. Any fishing vessel that enters the exclusion zone is breaking the law. And by using the global positioning satellite network, vessels' positions can be monitored automatically, as is already the case around the Great Barrier Reef in Australia and the Georges Bank off the coast of Maine. Such technology saves money that would otherwise have to be spent on fishery patrol vessels.

In addition, enough is now known about marine ecology to design the reserves well. As Louis Botsford of the University of California, Davis, explained, networks of marine parks of various sizes have advantages over single, large parks. A network means that some of the young fish that drift out of their native reserve will pitch up in a neighbouring one where they will be safe, rather than popping up in places where they can be caught. It also means that a greater variety of habitats can be protected for a given area of park. This provides hiding places and breeding grounds for a wider variety of fish species. Moreover, it creates extra perimeter for any given area—and it is at the perimeters of protected zones that fishermen can haul in the largest catches.

The message of the survey is clear: if reserves are set up before stocks are fished to exhaustion, they will quickly improve fishing prospects. But Callum Roberts, an expert on marine reserves at the University of York, in Britain, points out that once a species is gone completely, it may take a long time to return. In some habitats, such as coral reefs, once a species has been exterminated, the knock-on effects to the ecosystem sometimes mean that it can never return at all.

The industry seems reluctant to learn from all this. According to Dr Roberts, even with clear evidence of bigger overall catches, it is difficult to convince fishermen that giving up between 20% and 40% of their

grounds makes sense. Fishermen are not the only obstacle. Politicians, too, are frequently deaf to scientific advice. In May 2000, Bill Clinton issued an executive order to develop a system of marine protected areas in America. James Hansen, the new chairman of the House of Representatives' Committee on Resources, has written to President George Bush asking for his help in stopping or delaying the implementation of that order. It remains to be seen if the appeals of 160 researchers who released a statement at the AAAS meeting saying that marine parks are good for fish and fishermen alike will have any influence on the decision.

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About sponsorship

Spotting the winners

Feb 22nd 2001
From The Economist print edition

Reuters

This year's Oscar derby, which passes the finishing post on March 25th, looks like a two-horse race

Get article background

RIDLEY SCOTT'S sword-and-sandal epic, "Gladiator", and Ang Lee's Chinese martial-arts extravaganza, "Crouching Tiger, Hidden Dragon", together outstrip the Oscar field, with 12 and ten nominations respectively. As no picture in a foreign language has ever been named best film, and as the voting members of the Academy of Motion Picture Arts and Sciences, who decide the winners, tend to follow precedent, they are likely to prefer the home-grown product to the more exotic movie from Taiwan—especially as the nominations allow them to honour both. Mr Lee's picture is also up for best foreign film, which many Academy voters may feel is its proper reward. Expect, then, to see it triumph in that category but to be pipped by "Gladiator" for best film and best director.

As for outside contenders, Steven Soderbergh has the distinction of having two films up for best picture and best director—"Erin Brockovich" and "Traffic". The almost inevitable result will be a split Soderbergh vote, handing victory elsewhere. The last time this happened was 1938, when Michael Curtiz was nominated for "Angels with Dirty Faces" and "Four Daughters". He lost.

The fifth film competing for best picture is "Chocolat", made by Lasse Hallstrom, who was passed over in the best-director category. It is not unknown for films to win without nominations for their directors—Bruce Beresford's "Driving Miss Daisy" (1989) is an example. But it is rare and odd: there were jokes in 1989 as to whether "Driving Miss Daisy" had directed itself. Equally, Stephen Daldry's best director nod for "Billy Elliot" looks as near as he will get to an award, since his film about a boy dancer, a surprise success last autumn, is not in contention.

In the acting field, the one near certainty is Julia Roberts as best actress in "Erin Brockovich"—a funny, spunky performance fondly remembered in Hollywood many months after the film's release. It has been a good year for actresses. Any of her rivals (Joan Allen in "The Contender", Ellen Burstyn in "Requiem for a Dream", Juliette Binoche in "Chocolat" and Laura Linney in "You Can Count on Me") might be worthy winners. But Ms Roberts would be the popular choice, an actress who has "paid her dues" with sterling work in box-office hits over many years. And if it is true that the part earns the award at least as much as the player, Erin Brockovich was a part to die for.

Spare a thought, though, for those actresses whom Oscar has overlooked. Gillian ("X-Files") Anderson was, by common consent, a revelation in "The House of Mirth". And Bjork, magnificent in "Dancer in the Dark", has to settle for a best-song nod.

Best actor is much harder to call. Tom Hanks, in the otherwise barely recognised “Cast Away”, successfully held the screen single-handed through much of the film’s running time. But he has already won twice, in successive years (1993 and 1994). No one has yet been named best actor three times (though Walter Brennan was, in the supporting category). Oscar likes to spread the bounty, and three gongs might be considered tantamount to canonisation.

Many of the other contenders, however, give the unfortunate impression of having been chosen to make up numbers. Geoffrey Rush in “Quills” has also won before (for “Shine” in 1996), but here plays the Marquis de Sade, who endorsed and described every form of perversion. Though the role, clearly, is not the man, were he to win this time it might be thought to leave a nasty taste on a night when Hollywood routinely congratulates itself on its good taste and wholesome entertainment values.

Javier Bardem in “Before Night Falls” seems unlikely to be the second foreign-speaking winner only three years after Roberto Benigni, and Ed Harris, a natural supporting actor, might be judged out of his class (for “Pollock”) in the major league. Which leaves Russell Crowe in “Gladiator”. Not, perhaps, a great performance, but a great presence and responsible at least as much as director Ridley Scott for the film’s overall dignity. There is a tradition of the best film also featuring the best actor—notably in 1959, when Charlton Heston won for “Ben-Hur”, the obvious ancestor of “Gladiator”.

This year’s supporting role awards could well go to Benicio Del Toro in “Traffic” and Kate Hudson in “Almost Famous”. Giving the award to Mr Del Toro would be a way of saluting a film that has been critically well received but might otherwise be the victim of that two-way Soderbergh vote. Kate Hudson is the daughter of Goldie Hawn, who won in this category for her first film (“Cactus Flower” in 1966). If daughter Kate were to repeat the achievement 34 years later (these awards, remember, are for the year 2000), can you not picture the floods of family tears and congratulations on Oscar night, demonstrating once more Hollywood’s wide and generous heart?

Not that they will have a straight run to the finishing post. Mr Del Toro faces stiff competition from Albert Finney, Julia Roberts’s stable-mate in “Erin Brockovich”, and Academy voters have a soft spot for double acts (think of Shirley MacLaine and Jack Nicholson in “Terms of Endearment”, and Nicholson again with Helen Hunt in “As Good As It Gets”). There will be sentimental money, too, on Jeff Bridges in “The Contender”. Julie Walters in “Billy Elliot” might just be a dark horse. In the supporting stakes, Oscar loves salt-of-the-earth types such as Katina Paxinou, Lila Kedrova or Brenda Fricker, almost as much as fresh faces.

And the final tally? If five or six Academy awards went to “Gladiator” (including the craft divisions) and slightly fewer to “Crouching Tiger, Hidden Dragon”, this year’s Oscars could reasonably be regarded as a fair division of the winnings.

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American law

Flawed hero

Feb 22nd 2001
From The Economist print edition

OLIVER WENDELL HOLMES is an American icon, the very model of the crusty, wise old judge who also happens to be an intellectual giant. Author of America's most cited law-review article, famous dissenter on the United States Supreme Court, champion of civil liberties and the founder of legal pragmatism, the prevailing philosophy in American law, Holmes is as close to a judicial god as any country should want. The title of a popular biography, "Yankee from Olympus", captures the awe with which Holmes has been viewed by the legal fraternity as well as the public.

LAW WITHOUT VALUES: THE LIFE, WORK, AND LEGACY OF JUSTICE HOLMES
By A. W. Alschuler

University of Chicago Press; 332 pages; $30 and £19

Buy it at Amazon.com

In a lively and entertaining attack, Albert Alschuler strips layer after layer from the traditional image of Holmes to reveal not a wise and compassionate liberal saint, but a heartless social Darwinist who believed in nothing but power. According to Mr Alschuler, Holmes's reputation is largely the construction of much younger acolytes, the most prominent being Louis Brandeis and Felix Frankfurter, also leading Supreme Court justices. Holmes's disciples flattered the grand old man shamelessly, trumpeted his famous dissents on the Supreme Court even while ignoring his less-than-liberal reasoning, and swallowed whole many of his ideas about the law while overlooking their incoherence or inadequacy. By the time Holmes retired from the Supreme Court in 1932 at the age of 90, he had become an institution.

In dismantling the legend, Mr Alschuler actually paints the portrait of a far more interesting man. The defining episode in Holmes's life, we are told, was his service as a unionist soldier in the American civil war. During the war, he witnessed horrific carnage, lost friends and was himself seriously wounded three times. Holmes began the war as an ardent abolitionist. He ended it engulfed in existentialist despair, struggling to fill the emptiness with a Nietzschean worship of power. Rejecting with scorn his own youthful idealism, he embraced a corrosive scepticism which dissolved any ethical or moral claims.

For Holmes, democracy was solely about the rule of the majority or, more accurately, those who could impose their will on others through the legislative process. From this stemmed his support for judicial restraint, which is still held up as a model by both the left and right in American politics. And the law, insisted Holmes, was not about right or wrong, or rational judgment, but a system of sanctions. Perhaps his most famous contribution to legal lore is his argument that the law is best viewed from the point of view of the "bad man", who asks not what the law books say, or what reasons judges give in their rulings, but only what a specific court is likely to do to him if he is caught.

Mr Alschuler concedes that Holmes was a brilliant phrase-maker and that, mostly under the influence of Brandeis, he did write a few great legal opinions towards the end of his career. However, he argues that Holmes's view of the law, although hopelessly reductionist, has nevertheless had a wide-ranging and largely negative influence on American law in the 20th century, too often stripping its study and practice of ethical content. That is the real target of this important book.

Many will disagree sharply with Mr Alschuler's interpretation of Holmes, not least his colleagues at the University of Chicago Law School, home of the law-and-economics movement, where Mr Alschuler is a professor. Judge Richard Posner, who also teaches there and is one of America's best-known legal scholars, has helped to deify Holmes. Such critics will dismiss Mr Alschuler's citations from Holmes's letters as irrelevant to his judicial philosophy, though they will find it more difficult to ignore Holmes's many grossly illiberal judgments from the bench, which Mr Alschuler also cites. In addition, his dissection of Holmes's legal scholarship is devastating.

In limited space, Mr Alschuler is less successful at sketching an alternative theory of the law. His arguments will whet many readers' appetites more than persuade them. Yet this fascinating book

deserves a readership beyond the specialists who regularly engage in such controversies. It is an intellectually dramatic introduction to how the law works, and why it matters. And at its heart lies something more moving and more significant than any icon—a flawed and very human hero.

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America at war

A book for Bush

Feb 22nd 2001
From The Economist print edition

JOHN KENNEDY won the presidency in part by exploiting an imaginary missile gap. He successfully portrayed himself as a youthful and inspirational leader in the contest with the Soviet Union, and in his brilliant inaugural speech he wholly ignored what turned out to be acute domestic problems and called on his countrymen instead for a supreme effort to win the cold war. Much of his brief time in office was occupied with a series of confrontations with communism in one form or place or another. These tests ranged from the dangerous standoff over Berlin to the strange three-cornered civil war in Laos, from the two acts in the Cuban drama to the looming catastrophe in Vietnam.

KENNEDY'S WARS: BERLIN, CUBA, LAOS AND VIETNAM
By Lawrence Freedman

Oxford University Press; 528 pages; $35 and £20

Buy it at
Amazon.com
Amazon.co.uk

Lawrence Freedman, a professor of war studies at King's College, London, has written a scholarly and judicious history of Kennedy's cold war. As a good historian, he spells out the stakes involved, analyses the causes and the consequences of Kennedy's policies, and offers cautious but plausible answers to several of the historical puzzles he addresses.

Although the author shows how comprehensively Kennedy saw the world in cold-war terms, he acquits him of bellicosity. Indeed, his overall view is that Kennedy was instinctively cautious. He shows how in each of the four cases under review Kennedy resisted pressure from his staff and advisers, not to mention from the Pentagon, to take drastic action.

Kennedy did not scrap the plans he inherited for a CIA-sponsored invasion of Cuba; but he declined to intervene with American forces when it came to grief. In the Cuban missile crisis he rejected calls for air strikes or an invasion, imposed a naval blockade, characteristically rebranded as a "quarantine", and through back channels quietly traded the withdrawal of American missiles in Turkey for the removal of Russian weapons in Cuba. Over Berlin, he stood up to Khrushchev, but he did not force the issue by sending a convoy up the autobahn as blowhard generals wished.

Kennedy's policy towards Indochina is less easily summarised, and is the subject of more controversy than Cuba or Berlin. One school of thought blames Kennedy for setting the United States on course for massive and in the event disastrous intervention. Another contends that Kennedy would never have committed American forces as Lyndon Johnson did. Mr Freedman's judgment is not a controversialist's, but a historian's: we simply don't know how he would have acted had he lived.

His own tentative guess is that Kennedy would have continued to give South Vietnam military aid, while seeking as many options as possible. Flexibility was the key to his policy. His acceptance of cold-war containment may irk liberal revisionists, but he avoided escalation and explosion. Mr Freedman's judgment, at the end of an admirably rich and careful study, is that Kennedy's subtle, evasive policy, essentially political rather than ideological, had at least the merit that he is remembered for crises survived, not for his wars, and that he "left the cold war in a far less dangerous state than he found it."

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Three men and a pony

Feb 22nd 2001
From The Economist print edition

THE single biggest news maker in America in 1938 was not Hitler, Mussolini or Roosevelt. It was a diminutive, bad-tempered racehorse called Seabiscuit. Laura Hillenbrand's book tells Seabiscuit's story and that of the people who worked to make him one of the greatest racehorses the world has ever seen.

Seabiscuit: An American Legend
By Laura Hillenbrand

Random House; $24.95
To be published in Britain in May by Fourth Estate; £16.99

Buy it at
Amazon.com
Amazon.co.uk

Good sports books are few and far between, good books on horse racing even more so. So it is hugely refreshing when one as fine as this comes along. The research is meticulous, the writing elegant and concise, so that every page transports you back to the period.

Ms Hillenbrand opens with a portrait of Charles Howard, a former bicycle repairman who made his fortune by introducing the motor car to the western United States. Like a lot of rich men he indulged himself with racehorses, but unlike many he was good at sniffing out a bargain. Howard bought Seabiscuit for just $8,000 and sent him to an obscure trainer and former mustang-breaker named Tom Smith. The third member of this unlikely trio was Red Pollard, a half-blind, half-crippled former prizefighter turned jockey.

Racing in pre-war America was a nasty, brutal affair. Ms Hillenbrand is particularly good at describing the privations endured by jockeys. Most were contracted to stables where, in exchange for a cot in a vacant stall and $5 a week for food, the trainer would have first call on their services and an authoritarian control over their lives. A jockey's punishment for losing a race was a stout beating. If he gained a little weight, he was simply locked up without food until he lost it again.

Together, the three men and their equine charge overcame many setbacks. Seabiscuit went on to become one of the most successful (he won 33 of 89 races and almost $440,000, a contemporary record) and, in his way, charismatic performers in racing history. Shirley Temple starred in a 1949 film for Warner, "The Story of Seabiscuit"; and with a view to a remake, Universal has taken an option on Ms Hillenbrand's book. This is a remarkable tale well told by a writer who deftly blends history and sport. "Seabiscuit" should captivate a new generation of readers from beyond the world of horse racing.

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What the world is reading

Feb 22nd 2001
From The Economist print edition

AS WITH Noah's ark, things come in pairs in the current Dutch fiction list. "Gloed" is a recently "rediscovered" novel by a neglected Hungarian writer, Sandor Marai, which tells of two friends reunited after 41 years apart. Harry Mulisch spins a philosophical yarn around the meeting of two opposites. Marianne Fredriksson focuses on the bonds between two female friends. And it's double the royalties for Nicci French, an English writer best known for her taut psychological thrillers, who has two books in the Dutch top ten.

The French fiction list contains a comparable mixture of thrillers and romantic dramas. But a striking contrast is apparent in the non-fiction lists. In the Netherlands, it's all self-help, historical and lifestyle books—though it is good to see, too, that the honourable tradition of pottery in the home continues to thrive there. In France, meanwhile, the nation's readers have little time for hobbies, or indeed anything but politics. Astonishingly, just three of their non-fiction bestsellers do not relate to contemporary politics. Four of them pertain directly to current political trends and events. If this is anything to go by, no one shall accuse French voters at the upcoming elections of apathy.

Bestsellers

	DUTCH FICTION	DUTCH NON-FICTION
1	Het geheugenspel – *by Nicci French* Psychological thriller	Elsevier belasting almanak – *published by Elsevier* Tax tips
2	Gloed – *by Sandor Marai* Two friends reunited after 41 years	De eeuw van mijn vader – *by Geert Mak* Journalist's perspective on the 20th century
3	Dagboek van een geisha – *by Arthur Golden* Fictional memoirs of a geisha	Ons gescreende lichaam – *by Myra van Zwieten* Modern genetics
4	De passievrucht – *by Karel Glastra van Loon* Tense family drama	Het aanzien van 2000 – *by Han van Bree* The year that was
5	Uitgeverij Guggenheimer – *by Herman Brusselmans* Charismatic man makes his way in high society	Waarom mannen niet luisteren – *by Allan and Barbara Pease* Mysteries of gender differences revealed
6	De gelukkige – *by Mensje van Keulen* Love, fidelity and culture-shock	Thuis boetseren – *by Nieneke Lamme* Pottery at home
7	Het zal me jeuken – *by Youp van 't Hek* Compilation from top comedian/journalist	Atlas van de belevingswereld – *by Louise van Swaaij & Jean Klare* Quirky world atlas
8	De ontdekking van de hemel – *by Harry Mulisch* Meeting of two different minds	Over het ontstaan van soorten – *by Charles Darwin* Classic of modern science
9	Bezeten van mij – *by Nicci French* Psychological thriller	Windows 98 voor senioren – *by Addo Stuur* Mastering Windows 98
10	Inge en Mira – *by Marianne Fredriksson* Tales of a tempestuous friendship	Zen, de kunst van het leven – *by Michael Paul* The art of zen living

	FRENCH FICTION	FRENCH NON-FICTION
1	La sieste assassinée – *by Philippe Delerm* Paying attention to the small things in life	Il vaut mieux perdre sa fille que les élections – *by Anne-Valérie Noir* Author's open letter to her father
2	Une voix dans la nuit – *by Armistead Maupin* Sentimental thriller	On ne peut pas être heureux tout le temps – *by Françoise Giroud* Reflections of a queen of the French press
3	Dernier refuge – *by Patricia MacDonald* Domestic thriller	Notre Etat – *by Roger Fauroux and Bernard Spitz* Thoughts on political reform
4	Opération Hadès – *by Robert Ludlum and Gayle Lynds* Medical thriller	Les profiteurs de l'Etat – *by Bernard Zimmern* Where is the taxpayer's money going?
5	Le pacte des loups – *by Pierre Pelot* Novelisation of period film drama	Oedipe toi-même! – *by Marcel Rufo* Child psychology
6	La musique d'une vie – *by Andrei Makine* Homage to the Russian spirit	Le bateau ivre – *by Etienne Marcel* Pseudonymous call to order for RPR party
7	Colère – *by Denis Marquet* Ecological thriller	Ma vie, mon rêve – *by Céline Dion* Autobiography of a pop diva
8	Double vie – *by Pierre Assouline* Marriage on the rocks	Tazmamart cellule 10 – *by Ahmed Marzouki* Exposé of inhumanity in a Moroccan prison
9	La haine de la famille – *by Catherine Cusset* Rules of soccer applied to family life	Libre – *by Nicolas Sarkozy* RPR politician's thoughts on party reform
10	Les patriotes: La flamme ne s'éteindra pas – *by Max Gallo* Second volume of popular wartime romance	Ebène – *by Ryszard Kapuscinski* African memoirs

Sources: Van Piere; Livres Hebdo

Book descriptions by *The Economist*

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Asian daughters

Missing persons

Feb 22nd 2001
From The Economist print edition

SOME big numbers are so frightening that a habitual reaction is to ignore them, deny them or optimistically assume that they are already dwindling. One such figure was produced in 1990 by Amartya Sen, who later won the Nobel prize for economics. More than 100m women, he claimed, were "missing". Demographers have since quibbled with the arithmetic, but not with the underlying argument: that, in many countries, especially in Asia, there are fewer women than there should be, assuming normal patterns of birth and longevity.

ENDANGERED DAUGHTERS: DISCRIMINATION AND DEVELOPMENT IN ASIA
By Elisabeth Croll

Routledge; 224 pages; $75 ($24.95 paperback) and £45 (Ã‚Â£14.99 paperback)

Buy it at
Amazon.com
Amazon.co.uk

Elisabeth Croll's "Endangered Daughters" valiantly confronts the horror of that statistic and what it means in Asia—especially in China and India, that continent's (and the world's) most populous countries. In China the "one-child" policy that was introduced in the late 1970s soon proved unenforceable. Parents wanted sons too badly. Within a few years, most rural areas of the country had relaxed the rules to allow parents a second child, when their first was a girl. In India, too, "a daughter is said to arrive without an invitation", while "the birth of a son is likened to 'sunrise in the abode of the gods'."

Among the grimmer consequences of this gender bias, infanticide, mercifully, seems less common than it was. But as techniques for determining the sex of a fetus improve and spread, sex-selective abortion is more prevalent. Surviving daughters are at greater risk than sons of neglect or abandonment, and face bigger obstacles to education and health-care.

Ms Croll's book synthesises the demographic evidence of the scale of the gender imbalance with ethnographic and anthropological research on how it has come about. The discrimination against daughters is, in one sense, easy to understand. A son is an investment in the family business, and in a parent's own old age; a daughter is an investment in somebody else's. You feed and clothe her, and then lavish money on a wedding and a dowry in order to offload her to another family, whose sons she will bear. As Ms Croll puts it, in East and South Asia, "child-care is still primarily practised and represented as a means of securing parent-care in old age": filial piety and ancestor-worship, in other words, are useful substitutes for an old-age pension provided by the state.

But "Endangered Daughters" shatters one common assumption in the rich world about such unappealing "traditional" values in poor countries: the notion that development will make them disappear. In practice, prosperity, better contraception and government campaigns and coercion do cut fertility rates; yet the ratio of surviving males to females climbs, even in such rich places as South Korea and Taiwan. When families have fewer children, the premium on the gender of each child seems to rise. In the early 1990s, 114 South Korean boys were born for every 100 girls, a higher ratio even than in China (about 111:100).

Attention has been paid to the looming social problems this worsening imbalance will bring—all those newspaper articles featuring fat, pampered little Chinese "emperors" or agonising about the prospect of so many millions of single, sexually frustrated young men. "Endangered Daughters" is a helpful corrective, reminding us that the real sufferers are the girls who survive the discrimination that has marked them since before their birth—and the many who never reach adulthood at all.

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Classic American fiction

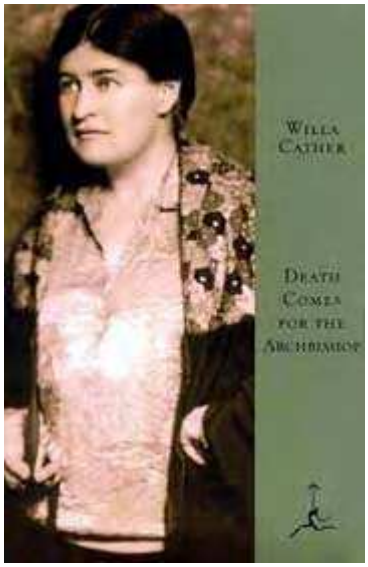
The presence of the past

Feb 22nd 2001
From The Economist print edition

WILLA CATHER AND THE POLITICS OF CRITICISM
By Joan Acocella

University of Nebraska Press; 138 pages; $20 and £13.50

Buy it at
Amazon.com
Amazon.co.uk



WILLA CATHER (1873-1947) is often thought of as an essentially nostalgic story-teller, an elegist—in novels such as “O Pioneers!” (1913), “The Song of the Lark” (1915) and “My Antonia” (1918)—to the spirit of the old frontiersmen and women, those noble children of the great prairies and deserts of the American west. As Joan Acocella shows in this sane and sometimes very funny critique of the critics, Cather seemed old-fashioned almost from the start. Post-war disillusion in the 1920s called for “experimentalism, subjectivity: James Joyce, Virginia Woolf,” writes Ms Acocella, “and they wouldn’t have minded something about the city, about cars and gin and sex.” Even the Great Depression failed to ignite her, and later still, when Cather seemed a promising candidate for the feminist cause, critics had to work hard to find the supposed gaps and codes by which she was thought to be signalling her disavowal of heterosexuality.

All of which says more about the state of criticism than about Willa Cather. Cather was an idealist who dealt with the grand picture. You can fault her modernist or feminist credentials, but in doing so you miss the point. What distinguishes her writing, as Ms Acocella and others have shown, notably Hermione Lee and A.S. Byatt, is her tragic vision, her sense of death, her way of seizing her characters imaginatively, rather than explaining them psychologically, and indeed the way her imagination, far from merely harking back, seized and worked on the whole idea of the past.

There is no doubt that Cather regretted the passing of the prairies, whose tall grass, says Jim Burden in “My Antonia”, was always in motion as if it were “a sort of loose hide and underneath it herds of wild buffalo were galloping, galloping.” She did talk about the “honesty” of the unfenced earth, and about that “naive, generous country that gave one its joyous force”, as the semi-autobiographical heroine of “The Song of the Lark”, Thea Kronborg, puts it. More than that, Thea shares with Cather the belief that the landscape is central to her art (she is a singer), that its simplicity is crucial to realising the underlying life of a thing.

There is also no denying that Cather drew inspiration not only from old landscapes, but from the people that lived in close communion with them. Her prairies are threaded with the stories of their first European immigrant settlers; they and the desert lands of New Mexico are full of carefully watered gardens sown with European seeds; her kitchens steam with cooking handed down from the old country; and in the richest of her books, “Death Comes for the Archbishop” (1926), Cather builds up a great compost of historical layers—of a new America sitting on centuries of Indian, Spanish and French culture.

But nostalgia is not the word. Cather was interested in continuity, which is not the same thing. Continuity goes forward as well as back. Take her treatment of the ancients, Virgil in particular, whose poetry is a revelation to many of her characters. Jim Burden, for example, is stirred by the enthusiasm of the

classics tutor at his college, but he understands for himself only on being suddenly struck by the charm of a dressmaker friend and a trio of golden-haired immigrant Danish laundry girls: “it came over me, as it had never done before,” he says, “the relation between girls like those and the poetry of Virgil. If there were no girls like them in the world, there would be no poetry. This revelation seemed to me inestimably precious.”

In other words, the centuries fall away, and whatever it was about Virgil is recreated. Again and again in Cather, one finds that the revelation is not of something “old”, but of something timeless. In “One of Ours” (1922), Cather’s so-called war novel (though two-thirds of it are set in Nebraska), Claude Wheeler, the hero, feels it as he looks at the rose window in the church of St Ouen in Rouen, and sees the purples and greens as though they had come directly from the past, like the light of the stars. Thea Kronborg feels it too, when she camps one summer in the ancient Indian cliff-dwellings of an Arizonan canyon. There, in fact, the past becomes so immediately present that it expresses itself not in words, or even thoughts, but in sensation: “It seemed to Thea that a certain understanding of those old people came up to her out of the rock shelf on which she lay.”

The novel where Cather sustains at book length the idea of the past looping up into present is relatively late. In “The Professor’s House” (1925), behind an air of ramshackle simplicity, Cather has constructed a plot and a symbolic scheme which is extraordinarily dense and suggestive. The story concerns a historian of the Spanish adventurers of America, whose marriage and career have been happy enough and yet who has gradually come to realise that he has lost something essential, an earlier, more primitive self (Cather’s characters often talk of themselves as multiple in this way). He reaches this conclusion towards the end of the book, but all the way through he has been trying out and remembering different lives, each of them represented by houses and places: his old one, a new one he has built, another one his son-in-law has built, a beach-house on Lake Michigan, various hotels, even a boat off the Spanish coast on which the design of his book “unfolded in the air above him”.

And then, “driven up like a wedge, through the middle” of the story, as Ms Acocella puts it, comes Tom Outland, a youth from the back of beyond, as his name suggests, very like the historian’s own forgotten self. Outland’s precise relation to the professor’s family fortunes is complicated, but it is enough to know that in a remarkable feat of apparently relaxed story-telling, Cather manages to create a convincing portrait of a man who covers the whole distance from ancient times (he has discovered and excavated Indian cliff-dwellings, like Thea’s) to the very tip of modernity (he becomes a scientist, and invents a device that will revolutionise aviation).

It is suggestive that Cather was writing this just when Tutankhamun’s furniture had brought the 14th century BC blinking into the light of the present. She mentions Egypt several times. It is as though, through Tom Outland, the Indians and modern science were made to form some sort of continuous and coherent current—like the great underground river beneath the sacred cavern in “Death Comes for the Archbishop”.

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About sponsorship

Novels from the Netherlands

Below the skin

Feb 22nd 2001
From The Economist print edition

EEN BED IN DE HEMEL.
By Tessa de Loo.
De Arbeiderspers; 148 pages; guilders 34.95.

FANTOOMPIJN.
By Arnon Grunberg.
Nijgh en Van Ditmar; 254 pages; guilders 39.90.

SPIJKERSCHRIFT.
By Kader Abdolah.
De Geus; 378 pages; guilders 49.90

UNDER its calm and cheerful surface, the Netherlands has produced some of the most searching fiction on the themes of wartime occupation, political barbarity and the hold on us of past evils. This tradition continues in three new novels, two of which reflect Europe's dreadful 20th century. The third confronts exile and persecution in modern Iran.

Tessa de Loo made her name in 1993 with a historical novel, "De Tweeling" (The Twins), which presented the war from the point of view of two sisters, one raised in Germany, the other in the Netherlands. Her latest book, "Een Bed in de Hemel" (A Bed in the Heavens), returns to the subject of the Holocaust. In the carefree 1960s, two Amsterdam students, Kata and Stefan, fall in love at first sight. But it turns out they may be brother and sister: in wartime, her mother had taken in (and taken up with) his father, a Jewish refugee and musician, while for self-protection conducting an affair with a Nazi. This somewhat forced moral structure is made up for by Ms de Loo's rich evocation of life in the Budapest ghetto and by her ability, in pared-down prose, to convey Kata's and Stefan's own confusions and anxieties.

Black comedy is the preferred approach of Arnon Grunberg, a literary star at only 29. His latest novel,"Fantoompijn" (Ghostpain), the story of a Jewish-Dutch writer living, like him, in New York, won him the AKO prize for fiction. The main activity of Mehlman, his anti-heroical literary self, is to think about writing and about leaving his wife. Success is ebbing, inspiration drying up; creditors and editors are closing in. He keeps one mistress, and starts an affair with another, one of his readers. In love as Mehlman is with muddle and failure, success eventually traps him in the form of an unexpected international bestseller, "The Polish-Jewish Kitchen in 69 Recipes: Cooking after Auschwitz". The book is taken as an essay in seriousness. He becomes a quotable public figure, a voice of reconciliation. But the mask is painful, the role impossible. He slides into madness.

"Fantoompijn" is Mr Grunberg's most complex and accomplished novel to date. It works in several registers at once. Mehlman uses his mother's concentration-camp number to gamble on, a despairing joke of a way to show that misfortune is always with us. In Mr Grunberg's disenchanted world people are commodities and identities are roles. The grimness is alleviated by absurdist humour, grotesque situations and snappy rejoinders reminiscent of Saul Bellow or, rather, Woody Allen. "There is no such thing as existential solitude, only the smell of it," sneers Mehlman at one point. As a quick take on isolation, this is not quite up to Mr Allen's famous exchange: "What are you doing Saturday night?" "Killing myself." "What are you doing Friday night?" But Mr Grunberg is without question a talent to watch.

In an entirely different key is the writing of Kader Abdolah. The persecutions are contemporary. Yet generosity is his hallmark. From a family of Persian poets, he fled to the Netherlands in 1988 and has recreated himself as a Dutch writer. He learnt the language from scratch, made his literary debut in 1993, has a column in the *Volkskrant,* a national newspaper, and has won several awards for both

journalism and fiction.

His new novel “Spijkerschrift” (Cuneiform Script) is taken fairly directly from life. Ismaiel, an Iranian refugee living in Holland, inherits the notebooks of his deaf-and-dumb father, Aga Akbar. He decides to decipher the scribbles of a man who could express himself only by gesture. In short, powerful sentences, Mr Abdolah draws a poignant and colourful picture of a humble life set against Iran’s recent history: Reza Khan and the last Shah, the 1979 revolution, war with Iraq and fundamentalist terror.

Akbar had been deaf to political evil, and when he dies searching for his missing daughter, a probable victim of religious zealotry, Ismaiel realises that he has relied on his father as much as the impaired man depended on him.

Ismaiel also tells his own story: of life in a remote village and hunger for reading, of student years in Teheran and political activism, and then later the acceptance of exile. In search of new roots, imagination and memory prove essential. The narrative travels back and forth in time and space, from the reclaimed land of the polder, where everything is “new and the soil still smells of fish”, to the entrancing, age-old beauty of the Iranian mountains, from Dutch pragmatism to magical story-telling. He searches out likenesses between Dutch classics and Persian poets, as if to establish secret corridors between separate worlds. Exile is Mr Abdolah’s recurring theme and, if language is a native land, his writing is a special homecoming.

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About sponsorship

Russia at war

Aping your foe

Feb 22nd 2001
From The Economist print edition

IT IS not only long-married couples, or animals and their owners, who frequently come to resemble one another. It happens to enemies as well. That, at any rate, is one conclusion you could draw from the hardy determination with which the Soviet Union, even as its armies drove out the Nazi invaders, chose to imitate the tyranny it had just defeated.

The clearest example of this was the steady resurgence of official anti-Semitism that culminated in 1952-53, when the dying Stalin alleged that Jewish doctors were plotting to kill him. The vocabulary of Soviet anti-Semitism was eerily reminiscent of Nazi propaganda; and the fact that Jews had played an honourable part in the Soviet war effort did not guarantee them a warm welcome when they returned to newly liberated towns and villages in Ukraine or Belarus. The Nazi occupiers had unleashed the anti-Semitic bacillus, and its infectious power did not disappear when the Germans withdrew.

MAKING SENSE OF WAR: THE SECOND WORLD WAR AND THE FATE OF THE BOLSHEVIK REVOLUTION
By Amir Weiner

Princeton University Press; 416 pages; $39.50 and £26.95

Buy it at
Amazon.com
Amazon.co.uk

That is the most disturbing point to emerge from Amir Weiner's study of the power struggles, and changing political discourse, of Soviet Ukraine, focusing on the Vinnytsia region. As he rightly observes, the second world war was a defining moment in the history of the Soviet Union and its ideology. But some shift towards defining the "enemy" in racial rather than class terms had already occurred in the 1930s—with official propaganda in Ukraine, for example, demonising the ethnic-Polish community. This helped to lay the ground for post-war propagandists to fashion a "Soviet Ukrainian" consciousness which played on anti-Jewish and anti-Polish feeling while promoting loyalty to Moscow.

The power of totalitarian regimes to fashion new prejudices out of old is a subject that fascinates with horror; and it reminds us that the "ancient hatreds" which caused so much bloodshed and misery in the post-communist world have often been quite carefully constructed, or at least revived, in relatively recent times.

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About sponsorship

Herbert Simon

Feb 22nd 2001
From The Economist print edition

Herbert Simon, artificial intelligence pioneer, died on February 9th, aged 84

AP/Carnegie Mellon University/Mike Haritan

The idea of such a marvellous machine had been around for centuries. René Descartes (1596-1650), whose philosophy was bound up with mathematics, wondered whether a machine could be made to think; but generally the notion was considered as unlikely as turning iron into gold, another fantasy that occupied great minds. Now here was Mr Simon disturbing his class on a sleepy afternoon in Chicago in 1957 with his improbable claim for computers.

At that time the computer was chiefly famous for having been invented by the British to decode enemy messages in the second world war. High-tech in the world at large was not much more than the electric typewriter. But for several years Mr Simon had been examining whether a computer could match the process of human thought. As a test, he showed that a computer could quickly provide a proof of theorems in “Principia Mathematica”, a key 20th-century work on logical theory. Bertrand Russell, one of the book’s authors, said a trifle testily that he wished he had known what “can now be done by machinery” before he had “wasted ten years doing it by hand.”

But can artificial intelligence, AI as insiders call it, really be dignified with, well, “intelligence”? Is this what Descartes had in mind when he wrote, “I think, therefore I am”? A machine will deliver a bar of chocolate in return for a coin, provided it is working, but not even a child believes it is a thinking instrument. A computer is a machine, however intricate. Is it no more than a number cruncher? For more than 40 years Mr Simon was regularly interrogated about his claim that there was little difference between a suitably programmed computer and the human brain’s use of neurons. He usually answered questions with good grace, but he refused to give ground.

Obvious once you know

In 1978, Herbert Simon was awarded the Nobel prize for economics. What for many people would be regarded as the culmination of a life’s work, Mr Simon took almost casually, a diversion. The Swedish judges at the presentation ceremony were a touch hurt to hear that artificial intelligence had been his central interest, rather than economics, although of course he was interested in that discipline too. But to those who knew him such versatility was no great surprise. He dabbled in many things, usually with great accomplishment. What he called “social science” took a hold on him, but he could probably have made a career as a pianist or a painter.

His parents were German immigrants who, like many before them, had settled in Milwaukee. While still at university he had a part-time job with Milwaukee’s local authority and became interested in how the administration made budget decisions, or choices as Mr Simon preferred to call them. Years later “Administrative Behaviour” was the subject of his doctorate, and later still the dissertation was turned into a book of the same name, probably the best known of Mr Simon’s 20 books. It was his ideas on decision-making, especially in business, that caught the eye of the Nobel judges.

Like many economic theories, Mr Simon’s seems obvious once you know it. In taking a decision, he said, no business could process satisfactorily all the “zillion things” affecting the marketing of a product, in the hope that the right answer for maximising profit would pop out at the end.

That was classical economic theory, he said, but it was “a ridiculous view of what goes on”. Rather, a

business tried to make a decision that was “good enough”. He called his theory “bounded rationality” and invented a name to describe it: “satisficing”, a composition of the words satisfy and suffice. Not all economists agreed with Mr Simon. “But they are mistaken,” he said.

His views on economics tied in with his ideas on artificial intelligence. Even a computer displayed its intelligence by making choices, he said. Like a human, a chess computer would analyse the consequences of a move, but it would do better than even a grandmaster, who would be unlikely to see beyond eight moves ahead. But what about insight? Or indeed wisdom and creativity? Mr Simon tended to be dismissive of such vague human terms. His computers had created drawings, which he was happy to display in his office, and music, which musicians said had aesthetic interest. They had made choices, as a human artist or musician would.

For many people, artificial intelligence suggests Hal, the worryingly clever human-like computer which rebelled in the film “2001”. Although Mr Simon sometimes seemed to suggest that a Hal was just around the corner, he was not going to be drawn into comparisons with science fiction. His strictly scientific aims, he said, were limited to using computers to understand how humans think, and as an aid to human thinking. What about the soul? No one, he said, would tell him what the soul was. When someone did, he said thoughtfully, he would program one.

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OUTPUT, DEMAND AND JOBS

Feb 22nd 2001
From The Economist print edition

Spain's GDP grew by 3.7% in the year to the fourth quarter of 2000; output in 2000 was 4.1% higher than in 1999. Industrial production in America rose by 2.4% in the year to January, but jumped by 8% in the euro area in the year to December. Dutch unemployment remained stable at 2.6% in January. The jobless rate in Sweden moved up to 4.4%.

% change at annual rate	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)	Unemployment % rate	
	3 mths†	1 year	2000	2001	3 mths†	1 year	1 year	latest	year ago
Australia	+ 2.6	+ 4.2 Q3	+ 4.3	+ 3.2	– 1.5	+ 4.2 Q3*	– 0.1 Q4	6.7 Jan	6.9
Austria	+ 1.2	+ 1.9 Q3	+ 3.4	+ 2.4	na	+ 6.7 Oct*	– 1.1 Oct	3.3 Dec	3.6
Belgium	+ 2.0	+ 3.2 Q3	+ 3.9	+ 2.7	na	+ 7.3 Dec*	+ 6.4 Nov	10.7 Jan*	11.3
Britain	+ 1.0	+ 2.4 Q4	+ 3.1	+ 2.5	– 2.9	+ 0.5 Dec	+ 3.3 Jan	5.3 Dec‡	5.9
Canada	+ 4.8	+ 5.0 Q3	+ 4.9	+ 2.8	+ 1.2	+ 4.5 Nov	+ 4.6 Nov	6.9 Jan	6.8
Denmark	+ 2.0	+ 2.7 Q3	+ 2.6	+ 2.1	na	+ 8.6 Dec	– 1.0 Dec	5.4 Dec	5.4
France	+ 2.3	+ 3.0 Q3	+ 3.1	+ 2.6	+ 2.3	+ 2.9 Dec	– 1.5 Dec	9.2 Dec	10.6
Germany	+ 2.3	+ 2.8 Q3	+ 3.1	+ 2.4	+ 0.9	+ 5.5 Dec	– 2.9 Dec	9.3 Jan	10.1
Italy	+ 3.2	+ 2.7 Q4	+ 2.6	+ 2.2	+ 5.9	– 3.3 Dec	– 1.2 Nov	10.0 Oct	11.1
Japan	– 2.4	+ 0.5 Q3	+ 1.7	+ 1.4	+ 1.4	+ 3.8 Dec	– 1.1 Dec	4.8 Dec	4.7
Netherlands	+ 5.1	+ 3.1 Q4	+ 3.9	+ 3.0	+ 8.5	+ 9.4 Dec	+ 2.9 Nov	2.6 Jan§	2.7
Spain	+ 2.9	+ 3.7 Q4	+ 4.1	+ 3.1	+ 0.1	+ 4.4 Dec	na	13.7 Dec	15.1
Sweden	+ 3.9	+ 4.0 Q3	+ 4.0	+ 3.2	na	+ 9.9 Nov	+ 3.7 Dec	4.4 Jan*	5.7
Switzerland	+ 2.0	+ 3.6 Q3	+ 3.4	+ 2.2	na	+ 6.9 Q3*	– 2.0 Dec	2.0 Jan*	2.6
United States	+ 1.4	+ 3.5 Q4	+ 5.0	+ 1.8	– 3.2	+ 2.4 Jan	+ 2.6 Dec	4.2 Jan	4.0
Euro area	+ 2.4	+ 3.3 Q3	+ 3.4	+ 2.6	+ 7.5	+ 8.0 Dec	+ 1.2 Nov	8.7 Dec	9.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*								
Finland	+ 7.0	+ 5.6 Q3	na	na	+17.2	+ 7.0 Dec	+ 2.2 Oct	9.9 Jan*	10.6
Greece	na	+ 2.5 2000	na	na	na	+ 3.1 Nov	+ 9.7 Aug	na	na
Iceland	na	+ 4.4 1999	na	na	na	+ 4.2 1999	na	1.3 Dec	1.7
Ireland	+21.5	+12.2 Q2	na	na	+31.0	+ 5.2 Jul	+ 9.7 Nov	3.6 Jan	4.6
Luxembourg	na	+ 7.5 1999	na	na	na	+ 1.2 Nov*	+15.8 Sep	2.6 Dec	2.9
New Zealand	+ 2.7	+ 2.4 Q3	na	na	na	+11.5 Q3*	+ 7.3 Q4	5.6 Q4	6.3
Norway	+ 0.2	+ 0.9 Q4	na	na	+ 5.5	– 2.7 Dec	+ 0.7 Dec	3.1 Q4	3.2
Portugal	+ 0.8	+ 2.6 Q2	na	na	na	+ 6.2 Dec*	+ 3.8 Oct	4.0 Q3	4.2

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate. ‡Oct-Dec; claimant count rate 3.5% in January. §Nov-Jan.

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COMMODITY PRICE INDEX

Feb 22nd 2001
From The Economist print edition

Workers at Falconbridge's nickel smelter in Sudbury, Ontario, have agreed on a new three-year contract. This ends a seven-month strike, during which the plant operated at only 60% of its annual capacity of 37,000 tonnes. The price of nickel sank to its lowest for 18 months and 40% below the peak a year ago. Analysts expect it to fall further. Demand for stainless steel, the main use for nickel, is always strong in the second quarter, which will offset the resumption of normal output at Sudbury. But thereafter demand is likely to wane. Industry consultants Brook Hunt forecast that demand will grow by 3% this year, while refined nickel output increases by 10%. After a 40,000 tonne deficit in 2000, the market could move into a 25,000 tonne surplus.

1995=100	Feb 6th	Feb 13th	Feb 20th*	% change on one month	% change on one year
Dollar index					
All items	71.9	71.2	71.3	– 3.0	– 4.3
Food	70.5	70.0	70.8	– 2.2	– 0.4
Industrials					
All	73.7	72.9	72.1	– 4.0	– 9.2
Nfa†	66.7	65.0	64.5	– 3.1	– 12.4
Metals	79.7	79.5	78.5	– 4.6	– 6.8
Sterling index					
All items	77.6	77.4	77.9	– 1.2	+ 6.9
Food	76.1	76.0	77.3	– 0.4	+ 11.4
Industrials	79.6	79.2	78.7	– 2.2	+ 1.5
Euro index					
All items	101.5	101.7	103.2	+ 0.2	+ 6.0
Food	99.5	99.9	102.4	+ 1.0	+ 10.4
Industrials	104.1	104.1	104.3	– 0.8	+ 0.6
Yen index					
All items	87.9	89.0	87.7	– 4.3	– 0.1
Food	86.2	87.4	87.0	– 3.5	+ 4.0
Industrials	90.2	91.1	88.6	– 5.2	– 5.2
Gold					
$ per oz	263.25	261.05	257.25	– 3.4	– 15.1
Crude oil North Sea Brent					
$ per barrel	28.58	28.09	26.78	+ 1.1	– 2.4
West Texas Intermediate					
$ per barrel	30.26	30.12	28.44	– 3.6	– 4.4

* Provisional † Non-food agriculturals

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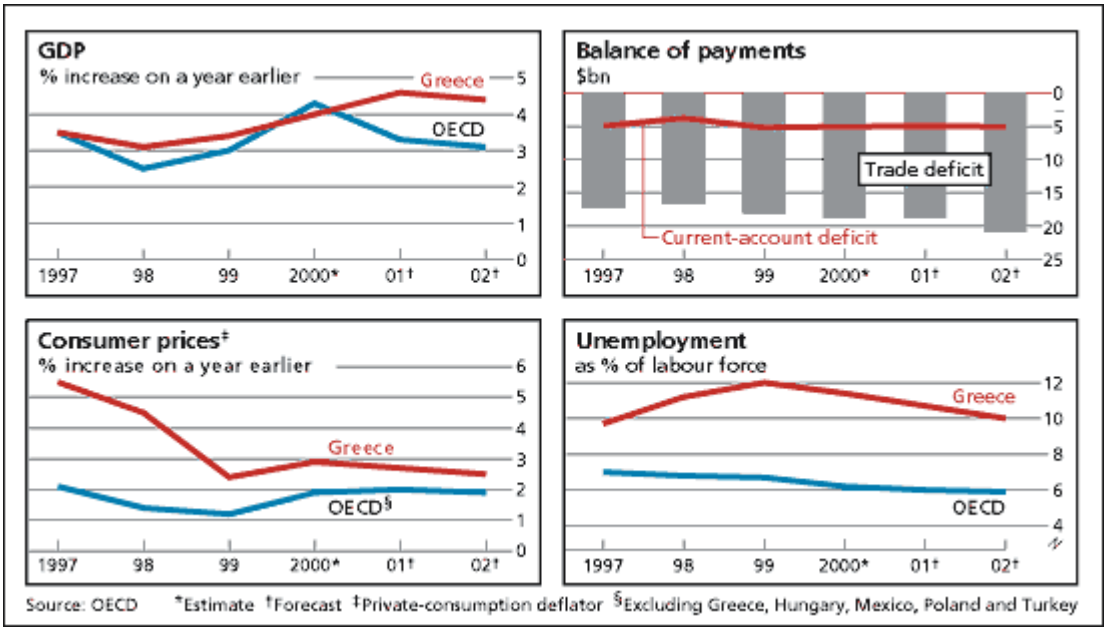
GREECE

Feb 22nd 2001
From The Economist print edition

Rigidities in the labour market will have to be tackled if Greece is to push its unemployment rate below 10% of the labour force, according to a survey by the OECD. Unemployment is expected to fall slightly over the next two years, but Greece will not converge on the OECD average of 6% until wages become more flexible and employers are given a freer hand. The country has been more successful in controlling inflation, which is forecast to rise by less than 3% a year in 2001 and 2002, a marked improvement on the 20% of a decade ago. Despite its malfunctioning labour market, the Greek economy is forecast to grow by more than 4% in 2001 and 2002, well above the OECD average. However, its trade deficit will swell, putting it fifth in the OECD, behind America, Britain, Spain and Turkey.



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PRICES AND WAGES

Feb 22nd 2001
From The Economist print edition

Energy-price increases in January helped fuel the biggest monthly gain in American consumer prices for a year, raising the annual rate of inflation to 3.7%. American producer-price inflation also increased in the 12 months to January to 4.8%, the highest for ten years. German workers received a pay rise of 2.3% in the year to December.

% change at annual rate	Consumer prices*		The Economist poll consumer prices forecast		Producer prices*		Wages/earnings	
	3 mths†	1 year	2000	2001	3 mths†	1 year	3 mths†	1 year
Australia	+ 1.2	+ 5.8 Q4	+ 4.6	+ 4.1	+10.2	+ 8.4 Q4	− 3.3	+ 5.0 Q4
Austria	+ 2.8	+ 2.6 Dec	+ 2.1	+ 1.7	+ 2.1	+ 3.2 Jan	+ 1.9	+ 2.2 Dec
Belgium	+ 0.7	+ 2.2 Jan	+ 2.6	+ 2.1	+ 9.0	+ 7.1 Dec	+ 3.7	+ 1.6 Q4
Britain	+ 1.3	+ 2.7 Jan	+ 2.4	+ 2.2	+ 0.2	+ 1.9 Jan	+ 7.0	+ 4.4 Dec
Canada	+ 0.3	+ 3.0 Jan	+ 2.7	+ 2.4	+ 4.9	+ 3.5 Dec	+ 0.7	+ 3.4 Nov
Denmark	+ 1.3	+ 2.3 Jan	+ 2.9	+ 2.3	+ 3.0	+ 3.9 Dec	+ 7.0	+ 3.8 Q3
France	+ 1.7	+ 1.6 Dec	+ 1.7	+ 1.4	+ 5.2	+ 4.7 Dec	+ 4.6	+ 5.3 Q3
Germany	+ 1.7	+ 2.4 Jan	+ 2.0	+ 1.5	+ 0.8	+ 3.8 Jan	na	+ 2.3 Dec*
Italy	+ 3.1	+ 3.0 Jan	+ 2.5	+ 2.1	+ 6.1	+ 6.2 Dec	+ 0.9	+ 1.7 Dec*
Japan	+ 0.7	− 0.2 Dec	− 0.7	− 0.4	+ 1.4	+ 1.2 Jan	na	+ 1.8 Dec
Netherlands	+ 2.3	+ 4.2 Jan	+ 2.5	+ 3.0	+ 7.4	+ 7.6 Dec	+ 1.4	+ 3.0 Dec
Spain	+ 3.0	+ 3.7 Jan	+ 3.4	+ 2.9	+ 4.8	+ 5.0 Jan	+ 3.2	+ 2.4 Q3
Sweden	na	+ 1.4 Dec	+ 1.3	+ 1.7	+ 6.7	+ 3.7 Dec	+ 0.1	+ 2.1 Nov*
Switzerland	+ 2.0	+ 1.3 Jan	+ 1.6	+ 1.4	nil	+ 1.4 Jan	na	+ 0.2 1999
United States	+ 3.3	+ 3.7 Jan	+ 3.4	+ 2.5	+ 4.8	+ 4.8 Jan	+ 4.8	+ 3.9 Jan
Euro area	+ 2.1	+ 2.6 Dec	+ 2.3	+ 1.9	+ 5.7	+ 5.4 Dec	+ 1.2	+ 1.8 Q3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 0.1	+ 3.3 Jan	na	na	− 1.1	+ 4.7 Jan	+ 3.0	+ 4.3 Q4*
Greece	+ 6.6	+ 3.4 Jan	na	na	+ 8.6	+ 6.7 Dec	na	na
Iceland	+ 2.8	+ 4.1 Feb	na	na	+ 2.8	+ 4.4 Jan	+ 1.9	+ 7.6 Dec
Ireland	+ 3.0	+ 5.2 Jan	na	na	− 0.2	+ 3.8 Jan	+17.5	+ 7.0 Q2*
Luxembourg	+ 5.6	+ 2.9 Jan	na	na	+ 0.3	+ 5.0 Nov	+ 7.7	+ 8.4 Oct*
New Zealand	+ 4.7	+ 4.0 Q4	na	na	+16.1	+ 8.0 Q3	+ 1.8	+ 1.6 Q4
Norway	+ 4.2	+ 3.4 Jan	na	na	na	+ 3.3 Jan	+ 2.9	+ 3.8 Q3*
Portugal	+ 5.7	+ 4.4 Jan	na	na	+16.1	+13.4 Dec	na	+ 3.0 Nov*

*Not seasonally adjusted. †Average of latest 3 months compared with average of previous 3 months, at annual rate.

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MONEY AND INTEREST RATES

Feb 22nd 2001
From The Economist print edition

The yield on 30-year American Treasury bonds rose after new figures showed an unexpected rise in inflation. In the year to January broad money-supply growth quickened to 9.5% in the United States and to 9.4% in Britain.

	Money supply* % rise on year ago			Interest rates % p.a. (Feb 21st 2001)							
				over-	3-mth money market		banks	2-year	10-year gov't		corporate
	narrow	broad		night	latest	year ago	prime	gov't bonds	latest†	year ago	bonds
Australia	+9.3	+4.8	Dec	5.75	5.61	5.79	8.50	4.94	5.38	6.75	6.68
Britain	+4.2	+9.4	Jan	5.06	5.69	6.16	6.75	5.22	4.85	5.44	6.10
Canada	+14.2	+8.0	Dec	5.40	5.09	4.97	7.25	4.94	5.48	6.18	7.04
Denmark	na	+1.8	Dec	4.90	5.02	4.11	8.00	5.01	5.07	5.70	7.13
Japan	+4.6	+2.4	Jan	0.23	0.33	0.05	1.50	0.23	1.35	1.82	1.53§
Sweden	+2.4	+0.1	Jan	4.00	4.00	3.96	4.53	4.12	4.85	5.74	4.45
Switzerland	−3.2	+0.4	Jan	3.62	3.52	2.36	5.63	3.35	3.44	3.69	4.32
United States	1.8	+9.5	Jan	5.56	5.19	6.02	8.50	4.74	5.26	6.92	7.05
Euro area‡	+5.5	+4.9	Dec	5.70	4.71	3.63	5.60	4.50	4.77	5.37	5.68

† France 4.92, Germany 4.77, Italy 5.24. Benchmarks: Japan No.228 1.36, US 30-yr 5.49. ‡ Germany for prime and bonds. §New series.

*Narrow: M1 except Britain M0, broad M2 or M3 except Britain M4. Sources: Commerzbank, Den Danske, J.P. Morgan Chase, Royal Bank of Canada, Svenska Handelsbanken, Warburg Dillon Read, WEFA Group, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

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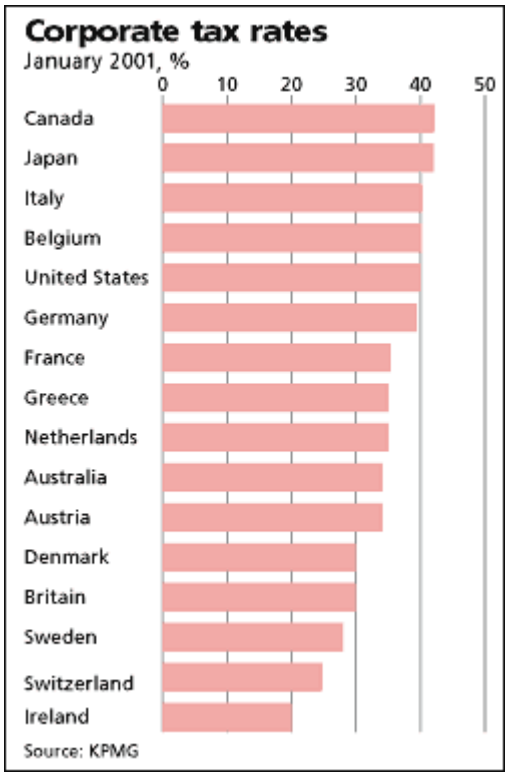
COMPANY TAXES

Feb 22nd 2001
From The Economist print edition

Canada has the highest rate of corporate tax in the OECD, according to a new survey by KPMG, an accounting firm. Its 42.1% tax rate narrowly tops Japan's 42%. Last year's table-topper was Germany, where the highest corporate tax rate used to be 51.6%. However, far-reaching tax reforms have now slashed this rate to 39.4%. Despite international efforts to curb tax competition between countries trying to attract internationally mobile firms, corporate tax rates are falling throughout the rich world: the average rate has dropped from 37.5% in 1996 to 33% now. Ireland's rate is just 20% (the lowest in the OECD apart from Hungary's, at 18%). But low tax rates do not necessarily mean a low tax burden. That depends on allowances and on the definition of the tax base to which the rate is applied.



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TRADE, EXCHANGE RATES AND BUDGETS

Feb 22nd 2001
From The Economist print edition

America's trade deficit widened slightly in December, taking it to a record of nearly $450 billion in 2000. Canada's trade surplus reached a record $36.6 billion last year. In contrast, the surplus in the euro area shrank to $11.2 billion, a fifth of its value in 1999. In trade-weighted terms, the dollar rose 0.5%.

	Trade balance*, $bn		Current account		Exchange rate		Currency units					Budget
	latest month	latest 12 months	$bn latest 12 mths	The Economist poll % of GDP, forecast 2000	2001	trade-weighted† Feb 21st	year ago	per $ Feb 21st	per $ year ago	per £	per euro	per ¥100	balance % of GDP 2000‡
Australia	− 0.29 Dec	− 4.6	− 17.8 Q3	-4.2	-3.4	71.9	80.1	1.90	1.61	2.74	1.73	1.63	0.9
Austria	+ 0.10 Nov§	− 4.1	− 5.1 Dec	-2.6	-2.4	100.3	101.1	15.1	13.7	21.8	13.8	12.94	-1.6
Belgium	− 0.01 Nov§	+ 12.8	+ 10.3 Sep	4.0	4.0	99.1	100.0	44.2	40.2	63.9	40.3	37.9	-0.1
Britain	− 3.06 Nov	− 42.4	− 16.3 Q3	-1.5	-1.8	104.4	107.3	0.69	0.61	–	0.63	0.59	2.7
Canada	+ 3.84 Dec	+ 36.6	+ 7.7 Q3	1.3	0.6	77.8	80.6	1.54	1.46	2.22	1.40	1.32	2.5
Denmark	+ 0.39 Dec	+ 5.0	+ 2.4 Dec	1.4	1.4	101.9	102.4	8.19	7.42	11.8	7.46	7.02	2.7
France	+ 0.03 Dec	+ 1.9	+ 25.6 Nov	2.1	1.9	101.8	103.0	7.19	6.53	10.4	6.56	6.17	-1.4
Germany	+ 1.70 Dec	+ 51.6	− 29.8 Dec	-1.3	-1.0	98.8	100.2	2.15	1.95	3.10	1.96	1.84	1.4
Italy	− 0.18 Nov	+ 1.3	− 5.3 Nov	-0.3	-0.2	72.7	73.5	2,124	1,929	3,068	1,936	1,822	-0.1
Japan	+ 6.57 Dec	+117.0	+117.7 Dec	2.5	2.2	143.5	144.0	117	111	168	106	–	-6.0
Netherlands	+ 1.14 Nov§	+ 12.4	+ 13.9 Q3	4.3	4.0	98.1	99.0	2.42	2.20	3.49	2.20	2.07	1.6
Spain	− 3.60 Dec	− 39.5	− 18.8 Nov	-3.4	-3.0	74.3	74.9	182	166	264	166	157	-0.3
Sweden	+ 0.89 Dec	+ 14.1	+ 5.5 Dec	2.1	2.1	77.9	82.8	9.88	8.56	14.3	9.01	8.48	3.4
Switzerland	+ 0.08 Jan§	− 0.9	+ 32.5 Q3	12.3	11.7	107.6	103.5	1.68	1.61	2.43	1.53	1.44	na
United States	−39.18 Dec	−449.5	−416.5 Q3	-4.3	-4.2	116.0	108.0	–	–	1.44	0.91	0.86	2.3
Euro area	+ 0.63 Dec§	+ 11.2	− 26.2 Nov	-0.3	-0.2	79.2	82.8	1.10	1.00	1.58	–	0.94	0.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*												
Finland	+ 1.13 Dec§	+ 13.2	+ 9.2 Dec	na	na	78.1	78.4	6.47	5.92	9.35	5.90	5.55	4.0
Greece	− 1.80 Q3	− 7.2	− 7.6 Sep	na	na	57.5	59.1	371	333	536	338	318	-1.0
Iceland	− 0.03 Nov§	− 0.5	− 0.7 Q2	na	na	na	na	86.0	72.0	124	78.5	73.8	2.8
Ireland	+ 2.85 Oct	+ 26.0	+ 0.2 Q3	na	na	87.9	89.0	1.17	0.78	1.68	1.06	1.00	5.6
Luxembourg	− 0.19 Nov	− 2.5	+ 1.6 Q3	na	na	99.1	100.0	43.9	40.2	63.5	40.0	37.7	na
New Zealand	− 0.02 Dec§	− 0.6	− 3.3 Q3	na	na	80.5	84.2	2.33	2.05	3.37	2.12	2.00	0.5
Norway	+ 2.47 Jan	+ 26.0	+ 21.4 Nov	na	na	92.8	93.7	8.96	8.15	12.9	8.17	7.68	14.0
Portugal	− 1.10 Nov§	− 14.8	− 11.0 Nov	na	na	89.5	90.0	218	200	315	199	187	-1.5

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.
§Not seasonally adjusted.

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STOCKMARKETS

Feb 22nd 2001
From The Economist print edition

Higher inflation and more profit warnings knocked 2.5% off the Dow over the week; the Nasdaq plunged by 8.9% to a 23-month low, 55% below its peak. Tokyo fell to a 28-month low. London's FTSE 100 fell below 6,000 for the first time since April.

Market indices		2000-01		% change on one week	one year	record high	Dec 31st 1999 in local currency	in $ terms
	Feb 21st	high	low					
Australia (All Ordinaries)	3,261.1	3,330.4	2,920.0	– 1.0	+ 4.8	– 2.1	+ 3.4	– 16.8
Austria (ATX)	1,204.1	1,236.1	1,029.4	+ 3.9	+ 9.7	– 30.7	+ 0.5	– 8.5
Belgium (Bel 20)	2,979.1	3,340.4	2,532.2	– 1.1	+ 9.1	– 19.1	– 10.8	– 18.9
Britain (FTSE 100)	5,972.4	6,930.2	5,972.4	– 3.3	– 2.8	– 13.8	– 13.8	– 22.8
Canada (Toronto Composite)	8,911.5	11,388.8	8,114.2	nil	4.3	21.8	+ 5.9	0.0
Denmark (Copenhagen SE)	976.9	1,039.0	755.1	+ 1.9	+ 16.9	6.0	+ 26.1	+ 14.4
France (SBF 250)	3,536.1	4,390.7	3,512.8	– 2.4	– 8.7	– 19.5	– 7.2	– 15.6
Germany (Xetra DAX)	6,348.0	8,065.0	6,200.7	– 2.0	– 17.5	– 21.3	– 8.8	– 17.0
Italy (BCI)	1,786.6	2,182.3	1,666.4	– 3.5	– 12.1	– 18.1	– 1.7	– 10.5
Japan (Nikkei 225)	13,100.1	20,833.2	13,100.1	– 1.4	– 32.9	– 66.3	– 30.8	– 39.0
(Topix)	1,240.8	2,507.6	1,230.1	– 1.1	– 25.6	– 57.0	– 28.0	– 36.4
Netherlands (EOE)	603.4	701.6	603.4	– 2.9	– 7.5	– 14.0	– 10.1	– 18.2
Spain (Madrid SE)	910.3	1,146.2	857.9	1.9	17.2	20.6	9.7	17.9
Sweden (Affarsvarlden Gen)	262.2§	399.8§	261.7§	0.8	26.7	34.4	17.0	28.3
Switzerland (Swiss Market)	7,637.1	8,377.0	6,781.4	– 2.3	+ 7.7	– 9.2	+ 0.9	– 4.0
United States (DJIA)	10,526.6	11,723.0	9,796.0	– 2.5	+ 2.9	– 10.2	– 8.4	– 8.4
(S&P 500)	1,255.1	1,527.5	1,255.1	– 4.6	– 7.8	– 17.8	– 14.6	– 14.6
(Nasdaq Comp)	2,268.9	5,048.6	2,268.9	– 8.9	– 50.1	– 55.1	– 44.2	– 44.2
Europe (FTSE Eurotop 300)*	1,451.9	1,705.0	1,451.8	– 2.6	– 5.9	– 14.8	– 8.3	– 16.6
Euro area (FTSE Ebloc 100)*	1,302.8	1,550.5	1,277.7	2.7	9.0	34.3	5.9	14.4
World (MSCI)†	1,146.8	1,448.8	1,178.2	3.4	14.5	20.8	na	19.3
World bond market (Salomon)‡	439.6	447.8	414.8	– 0.4	+ 2.2	– 4.4	na	+ 0.6

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms. §Rebased.

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SUBSTANCE ABUSE

Feb 22nd 2001
From The Economist print edition

Europe's teenagers are drinking and smoking more than they did in 1995, according to a new survey by the European School Survey Project on Alcohol and other Drugs. The project polled nearly 100,000 15- and 16-year-olds in 30 European countries. In 22 of them, more than one third of the adolescents surveyed had smoked cigarettes in the past month. As many as two-thirds had been puffing away in Greenland. While teenagers in Ireland and Britain smoke less, they drink much more, with over a quarter of them claiming to have been drunk at least three times over the past month. Some fear that this has serious health implications. According to a new study by Jürgen Rehm, at the Addiction Research Institute in Zurich, alcohol is implicated in a quarter of all deaths of European men aged 15-29, and in just over 9% of deaths of women. In total, more than 57,000 young Europeans died in 1999 because of road accidents, poisonings, suicides and homicides attributed to alcohol.

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FINANCIAL MARKETS

Feb 22nd 2001
From The Economist print edition

Istanbul plunged by 28% over the week; it fell by 18% on February 21st alone, following political and financial turmoil. After Turkish overnight interest rates soared to more than 4,000%, the government devalued the lira. The fall of the Nasdaq hit technology stocks in Asia: Hong Kong fell by 3.2% over the week.

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Feb 21st		Dec 31st 1999	
	Feb 21st	year ago	Feb 21st	% p.a.		one week	In local currency	In $ terms
China	8.28	8.28	12.0	5.40	2,018.6	− 2.8	+ 39.0	+ 39.1
Hong Kong	7.80	7.78	11.3	5.19	15,351.5	− 3.2	− 9.5	− 9.8
India	46.6	43.6	67.3	8.58	4,302.2	1.4	14.1	19.7
Indonesia	9,621	7,445	13,899	15 04	439.9	+ 3.9	− 35.0	− 52 4
Malaysia	3 80	3.80	5.49	3 30	711.5	− 0.4	− 12.4	− 12 4
Philippines	48.2	40.7	69.6	12.75	1,654.9	− 1.9	− 22.8	− 35.4
Singapore	1.74	1.71	2.52	2.00	1,961.2	− 0.2	− 20.9	− 24.4
South Korea	1,239	1,136	1,790	5.62	594.5	− 1.5	− 42.2	− 47.1
Taiwan	32.3	30.7	46.6	5.00	5,950.0	+ 1.1	29.6	31.5
Thailand	42.9	38 1	62 0	3 25	310.2	− 1.6	− 35.6	− 43 6
Argentina	1.00	1.00	1.44	6.39	450.1	− 9.0	− 18.0	− 18.0
Brazil	2.02	1.79	2.92	15.22	15,593.9	− 8.9	− 8.8	− 19.0
Chile	566	508	818	4.17*	4,917.1	− 0.6	− 4.8	− 11.0
Colombia	2,252	1,946	3,254	13.46	831.3	1.0	16.7	30.6
Mexico	9.71	9.41	14.0	17.07	6,007.7	5.5	15.7	17.7
Peru	3 53	3.46	5 1	11 38	1,309.2	− 0.7	− 28.7	− 29 0
Venezuela	704	661	1,017	10.55	7,777.1	+ 0.9	+ 43.5	+ 32.3
Egypt	3.89	3.42	5.62	9.10	7,093.0	− 2.4	− 45.6	− 52.1
Israel	4.12	4.05	5.95	5.72	445.2	− 2.6	− 8.6	− 7.7
South Africa	7.79	6.31	11.3	10.45	9,119.0	0.8	+ 6.7	15.6
Turkey	687,550	562,240	993,303	55 00	7,180.6	−28.0	− 52.8	− 62 8
Czech Republic	38.1	35.5	55.0	5.31	451.3	− 3.1	− 7.8	− 13.1
Hungary	292	256	422	11.24	7,129.6	− 6.6	− 19.2	− 29.6
Poland	4.13	4.09	5.97	18.70	15,873.6	− 4.2	− 12.2	− 12.0
Russia	28.7	28.8	41.4	25.00	162.4†	9.1	4.8	8.6

* nflation-adjusted † n dollar terms.

Sources: National statistics offices, central banks and stock exchanges; Primark Datastream; EIU; Reuters; Warburg Dillon Read; J.P. Morgan; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Bank Ekspres; Deutsche Bank; *Russian Economic Trends*.

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ECONOMY

Feb 22nd 2001
From The Economist print edition

Although Mexico's GDP growth slowed to 5.1% in the year to the fourth quarter, from 7.1% in the third quarter, its growth in 2000 as a whole was the highest for nearly 20 years. Taiwan's GDP growth fell to 4.1% in the year to the fourth quarter. In the Philippines the current-account surplus narrowed to $8.2 billion in the 12 months to October.

	% change on year earlier			Latest 12 months, $bn		Foreign reserves*, $bn	
	GDP	Industrial production	Consumer prices	Trade balance	Current account	Latest	Year ago
China	+ 7.4 Q4	+ 2.3 Jan	+ 1.5 Jan**	+24.0 Jan	+15.7 1999	116.4 Nov	156.8
Hong Kong	+10.4 Q3	− 0.1 Q3	− 1.8 Dec	−10.9 Dec	+ 9.2 Q3	111.5 Jan	94.3
India	+ 5.9 Q1†	+ 4.0 Dec	+ 3.5 Dec	− 8.3 Dec	− 5.6 Q3	38.1 Jan	32.6
Indonesia	+ 5.2 Q4	+38.4 Q4†	+ 8.3 Jan	+28.3 Dec	+ 6.1 Q1	22.6 Dec	26.5
Malaysia	+ 7.7 Q3	+15.1 Dec	+ 1.5 Jan	+16.0 Dec	+11.3 Q2	29.5 Dec	30.6
Philippines	+ 4.8 Q3	+36.6 Nov	+ 6.9 Jan	+ 6.7 Dec	+ 8.2 Oct	12.5 Oct	12.8
Singapore	+10.5 Q4	+20.0 Dec	+ 2.1 Dec	+ 3.3 Dec	+21.6 Q3	77.5 Nov	74.3
South Korea	+ 9.2 Q3	+ 4.7 Dec	+ 4.2 Jan	+12.9 Jan	+11.7 Nov	95.4 Jan	76.7
Taiwan	+ 4.1 Q4	− 2.1 Dec	+ 2.4 Jan	+ 8.1 Jan	+ 9.6 Q4	106.7 Dec	106.2
Thailand	+ 2.6 Q3	+ 1.5 Dec	+ 1.3 Jan	+ 5.6 Dec	+ 9.2 Dec	32.0 Dec	34.1
Argentina	nil Q3	− 3.4 Dec	− 1.5 Jan	+ 1.1 Dec	−10.5 Q3	25.2 Dec	26.3
Brazil	+ 4.4 Q4	+ 7.5 Dec	+ 5.4 Jan	− 1.1 Jan	−26.0 Jan	32.5 Nov	42.2
Chile	+ 5.8 Q3	− 3.8 Dec	+ 4.7 Jan	+ 1.4 Jan	− 0.7 Q3	14.2 Nov	14.1
Colombia	+ 3.1 Q3	+ 0.2 Dec	+ 8.5 Jan	+ 2.3 Dec	+ 0.1 Q2	8.1 Dec	7.6
Mexico	+ 5.1 Q4	− 0.4 Dec	+ 8.1 Jan	− 8.0 Dec	−16.4 Q3	35.5 Dec	31.8
Peru	− 1.8 Dec	+ 0.9 Nov	+ 3.9 Jan	+ 0.3 Dec	− 1.6 Q3	8.5 Nov	8.9
Venezuela	+ 3.3 Q3	na	+ 12.6 Jan	+14.4 Jul	+11.8 Q3	13.1 Dec	12.3
Egypt	+ 6.5 2000‡	+ 9.4 2000‡	+ 2.4 Nov	−10.8 Q3	− 0.9 Q3	12.9 Oct	15.4
Israel	+ 3.0 Q4	+ 6.0 Nov	− 0.1 Jan	− 6.9 Jan	− 0.7 Q3	23.2 Jan	22.1
South Africa	+ 4.5 Q3	+ 4.1 Dec	+ 7.1 Jan	+ 3.2 Dec	− 0.7 Q3	6.1 Nov	6.3
Turkey	+ 7.4 Q3	− 4.2 Dec	+ 35.9 Jan	−27.4 Nov	−10.3 Nov	18.8 Nov	22.7
Czech Republic	+ 2.2 Q3	+ 1.4 Dec	+ 4.2 Jan	− 3.3 Dec	− 1.9 Q3	13.0 Jan	12.8
Hungary	+ 4.6 Q3	+10.1 Dec	+ 10.1 Jan	+ 2.4 Dec	− 1.7 Dec	11.2 Dec	11.0
Poland	+ 2.2 Q4	+10.1 Jan	+ 7.4 Jan	−11.0 Dec	− 9.9 Dec	25.3 Dec	24.5
Russia	+ 7.9 Q4	+ 5.3 Jan	+ 20.7 Jan	+59.8 Nov	+43.8 Q3	24.3 Dec	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*						
Pakistan	+ 3.9 1999‡	+ 4.6 Jul	+ 4.9 Nov	− 2.0 Nov	− 2.5 1999	1.2 Dec	1.5
Saudi Arabia	+ 0.4 1999	na	− 1.0 Nov	+24.9 1999	− 1.7 1999	16.7 Nov	14.1

*Excluding gold, except Singapore; IMF definition. †2000. ‡Year ending June. **New series

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